OUR ELEVEN BILLION DOLLARS

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Europe's Debt to the United States

BY

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FOREWORD

"Our Eleven Billion Dollars" has grown out of the writer's frequent business trips in Europe. In this presentation of the European economic and political situation, with special reference to the billions owed to the United States by Europe, the facts and figures are based largely upon official documents. But the whole truth is not to be obtained from such sources; the authority for many statements is based on personal experience in Europe and the experience of other Americans holding important business or official positions abroad.

ROBERT MOUNTSIER.

New York City,
April 10, 1922.

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1

$11,000,000,000 WORTH OF EUROPE

Seventeen European governments or so-called governments owe the government of the United States $11,000,000,000 and more. The whole country has heard repeatedly of the large amounts loaned by the United States government during the war and after, but as yet the majority of American people know little of the truth about this enormous debt. As much of the truth as can be put into this book is here for every man to read. The facts and figures given are of direct personal concern to merchant and manufacturer, banker and financier, capitalist and workman, indeed to anybody owning a Liberty bond or paying a tax, either directly or indirectly.

The $11,000,000,000 and more that many Americans, Congressmen included, expect Europe to pay us in the next twenty-five years, are not coming back to the United States. This is a fact that it is far better to face to-day than five or twenty-five years from now. No amount of camouflage can change this part of the truth; those billions and other billions that will accumulate are abroad to stay, no matter whether Europe and America have peace or war.

And the reasons.

Europe cannot now pay her debts, and she will be unable to pay them within the next twenty-five years. Furthermore, though it may seem paradoxical, the people of the United States cannot afford to have billion after billion paid into the country. Even now, with more than $3,500,000,000 of gold in this country, we have more gold than we know what to do with. It is better for us as well as for Europe that this flood of gold from across the Atlantic should cease. The Congressman who demands that Europe pay us at once in hard cash evidently does not know that the world's supply of gold money is considerably less than Europe's total debt to us, and that if the United States held all the gold in the world it would mean poverty for the American people even though every man, woman and child in this country had their pockets filled with $20 gold pieces.

Europe might be able ultimately to pay us $11,000,000,000, plus accrued interest, in goods, but we can no more afford importations on such a vast scale than continued payments of large sums of gold. Commodities shipped to this country in an attempt to settle Europe's debts would jam every dock on the Atlantic and Pacific coasts and would glut our markets and cause general business stagnation, with factories closed throughout the country and workmen by the million thrown out of employment.

If it is not evident now, it will in time be generally realized by the American people that we cannot collect directly the billions owed us by Europe, nor can we, for the sake of Europe as well as for this country, cancel these debts under present conditions. Since this huge sum cannot be paid in gold, currency or goods, since we have more gold, currency and goods than we ourselves need, there remains but one solution of a problem that is keeping financiers and government treasury officials throughout the world awake at night.

This solution requires the American people to invest $11,000,000,000 and other billions in Europe—all these expatriated dollars to work for us instead of helping keep many Americans out of work, as at present.

Even though the United States is unable to absorb the billions of the principal from Europe, it might absorb the interest. However, it will soon become evident that even the interest for many years should be invested abroad. At present, interest on the debts owed by Europe to the United States government is accruing at the rate of about $1,400,000 a day. While you are reading this page Europe's debt to the United States has increased over $1,000.

Under the present loans to the governments of Europe and the so-called governments, to use a phrase that is popular with the United States Treasury, we are legally entitled to $11,000,000,000 worth of Europe, but just what part of the European countries and their assets has not yet been determined. That we should collect our $11,000,000,000 worth by conquest or annexation has never entered anybody's head, not even that of the most belligerent senator. But having an important interest in Europe in these billions of government loans and the billions owed to American manufacturers, bankers and investors, it is well to know just where we stand, and that is primarily a matter of where Europe stands.

Not one of the European governments owing us money is actually solvent at the present time. In some ways Europe has gone from bad at the Peace Conference to worse in the hands of politicians who have been manipulating national and international affairs toward further war and ruin. Europe is suffering from bad politics and bad economics. Economic warfare has been waged violently in Europe since the Armistice, and unless Europe reforms, this economic war is preliminary to another great war, the foundations of which were laid by the Treaty of Versailles.

New countries, established on alleged racial lines in defiance of economic and geographic boundaries, have been vying with older governments in making laws that ignore and violate the inexorable laws of economics. They have subsidized foods and unemployment, erected tariff walls and attempted to build up export trade while legislating against importing. They have tried to stabilize exchange and to replace gold with paper. While failing to balance budgets they have established and supported unnatural industries and have spent money on armaments in preparation for the next war.

No student of history can be among the pessimists who think Europe is permanently ruined. Although humanity is in a pretty bad way, partly because of what the war did not do for it, the world will come back to a new sort of normality—it will never be a normality of pre-war conditions—as always in the past after a widely devastating war. And this return will be made despite the $350,000,000,000 loss suffered by the world through Europe's War, a name far nearer the truth than the term World War. Three centuries ago Europe had the Thirty Years' War, but blacker conditions than exist to-day did not prevent Europe's return to periods of peace so prosperous as to make it possible to indulge in further costly wars. The Napoleonic wars laid waste Europe, leaving England with a debt sixteen times as great as at the beginning, but in a far shorter period than that covered by these wars England became the leading power in western Europe, her influence greatly enhanced by gold and credit. To-day Great Britain's debt is ten times what it was before the recent war.

After the war of 1870 the pessimists said that France would be ruined by the payment of the huge indemnity demanded by Prussia, that the payment of the indemnity in full was absolutely impossible. But in those days there was only a Bismarck to see that the French paid; to-day the outcome is less certain since there are a Keynes, a Wells and a Lloyd George to see that the French are not paid in full by the Germans.

No country to-day has a more discouraging outlook than had the United States after the Revolutionary War when the new nation had been formed from thirteen impoverished colonies. For us that is ancient history, but living to-day are Americans who have forgotten that after the Civil War they handled an American dollar that was worth little more than the French franc of 1921 and that not until fourteen years after Lee surrendered to Grant did the United States resume gold payments.

And yet the constant bombardment of the propaganda that Europe is ruined if Germany is compelled to pay the reparation sums imposed by the Allies. Note, however, that this prophetic propaganda ignores the payment by France, following her defeat in 1871, of an unprecedented indemnity without whining, without attempts at evasion.

Since 1919 certain improvements have been brought about in the European situation through Europe's own efforts. Food conditions are better, with the exception of Russia, and the fuel problem is of the past. The revolutionary spirit is no longer threatening, and the workers are more kindly disposed toward greater productive efforts. Transportation has improved, and industry is being reorganized with a view to greater efficiency and increased production. All this with the result that a marked advance in the standard of living has taken place in central and western Europe since 1919.

Nevertheless, from the American point of view, indeed from any practical business standpoint, what is Europe? At the opening of the Genoa conference a bad commercial and financial risk; everywhere over-inflation the rule, with government after government still printing unsecured paper money. Indeed, it would appear that nothing but printing presses could keep up with Europe's expenditures, what with government waste and the cost of armaments.

Certain European politicians continue to ignore the fact that submarines, no matter what their number, do not float loans and capital ships cannot create capital. Europe's problem is to replace fixed capital destroyed by the war, not to destroy more capital by putting a large portion of what she has left into navies and armies. The solution of this problem lies in increased production, which can be accomplished best with the aid of American capital plus economy and hard work on Europe's part. Too many European peoples have lost their old habits of hard work and thrift. There has been extensive loafing on the job in certain quarters of Europe since the Armistice, not only on the part of workers, many of whom have deliberately reduced production, but also on the part of capitalists and government officials, who frequently have waited for problems to solve themselves or for the United States to do their work for them.

Having acquired bad habits, Europe finds it difficult to eliminate instruments of warfare, reduce inflation and balance budgets, but her costly experiences are bringing her to a point where she understands that a thorough reorganization is necessary to prevent further military, political and financial disasters. Only recently has Europe come to realize that without such reorganization no financial assistance can be expected from the United States.

We have heard much talk of the United States' saving Europe, but two obstacles have been in the way—the United States does not wish to play the role of savior, and Europe does not wish to be saved. Europe has been quite willing to accept our charity and our credits, but with these reduced to a minimum and with a growing knowledge of the dangers ahead the whole situation is presenting itself in a different light. It is for Europe to display a willingness to clean house so that she may have something to show us when asking for financial assistance that will enable her to return to a self-supporting and paying basis. The American public has so far given little indication that it is willing to meet Europe on this proposition, but it appears that the time is not far distant when a sufficient understanding or acute necessity will bring the American people to aid Europe in its financial rehabilitation. As yet there is on this side of the Atlantic no general understanding of how $11,000,000,000 involve the United States in Europe's affairs.

For some time the man in the street, no matter whether Wall Street or Main Street, has been seeing more and more clearly that we need Europe and Europe needs us. With the world an economic as well as a geographic unit the United States cannot have prosperity until Europe, our best export customer, has the credit or means with which to buy our products.

To sum up the situation: As a result of the war the United States has a greater productive capacity and larger surpluses of manufactured and agricultural products than ever before. In Europe exists an immediate need for these surplus products. But the war and poor political and economic management have impoverished Europe to such an extent that she can buy only on long-term credits. These long-term credits and capital with which to reestablish her own productiveness are to be had in quantity only from the United States. As the leading creditor country of the world it will be our role to act as Europe's banker —when she institutes reforms satisfactory to us— just as Europe's capital in the form of huge loans and investments formerly enabled the United

States to develop its great resources. Before the war Great Britain, France and Germany had immense sums invested in the United States and other countries. These investments for the most part would have been permanent had it not been for the war, which compelled the belligerents to exchange an important part of their holdings abroad for munitions and foodstuffs.

The situation is now reversed. Instead of a good percentage of the profits of American industry and enterprise going to Europe in the form of interest and dividends and commodities, the United States has accumulated wealth in Europe and will be acquiring more on the other side of the Atlantic, thanks in part to the debt of $11,000,-000,000 and more. With our great industries established on a scale to meet foreign demands as well as home consumption we cannot afford to ignore Europe and her needs. We must sell our surplus commodities to a Europe that is economically sound, and the quickest way to create such a condition, is to invest, after she has instituted indispensable reforms, more billions in her industries—in stocks giving American control.

The Harding Administration has given various indications that it realizes the necessity of American financial aid to Europe in the matter of refunding the European governments' debts, facilitating American investments abroad and extending long-term credits. President Harding has pointed out that "heroic remedies" are necessary to meet the situation. To Congress he has made known his attitude in the clearest terms: "If we must choose between a people in idleness pressing for payment of indebtedness or a people resuming normal ways of employment and carrying credit, let us choose the latter."

But the Administration awaits the psychological moment for the United States to join Europe in what would amount practically to a close association with European nations in a commercial and financial alliance. One President of the United States led a horse to water and failed to make him drink. Doubtless his successor is not ignorant of the fact that a thirsty horse will lead to water and drink of its own accord. After getting thirsty enough for prosperity, which largely depends upon the revival of Europe, the general public and Congress will accept new financial and commercial arrangements with Europe. Not only for us was the Conference on the Limitation of Armament a great stride toward this end; Europe also made a forward move in coming to Washington, and the meeting of the Supreme Council at Cannes and the so-called Economic and Financial Conference at Genoa, may be considered quick, if faltering, steps toward a willingness to united action in the economic reconstruction of Europe.

In this work the United States will be the dominating power because of the huge debt Europe owes this country and the sums she must still borrow. Some would have us use our billions as a big stick—$11,000,000,000 and more would indeed make a big stick to wield over battered Europe—but the present Administration may be counted upon to use it as a pointer of the kind so well known in the American school room. As the chief creditor and the principal banker the United States has a right and also a duty to teach the lesson that balanced budgets, minus armaments, minus currency inflation, plus long-time credits, investments and increased production equal economic recovery in both Europe and the United States.

The short-sighted American who has not kept pace with the times but is living before the year 1914 and thinking in terms of the Monroe Doctrine and grocery bills cries, "Stay out of Europe!" He is the man who refuses to acknowledge that the complete resumption of the country's business activity on a normal scale depends largely upon the progress of financial and industrial recuperation in those countries which consume our surplus products; he is the man who cannot see that failure to give Europe financial aid in the near future means that the United States will have to decrease production and consumption even below pre-war normal, crippling not only itself but the rest of the world for an indefinite period.

Only those who are blind fail to see that we are already in Europe, that we are in to the extent of $11,000,000,000 and more.

II

EUROPE, DR., TO U. S. A. & CO., CR., $16,000,000,000

It is now generally known in Europe, but not so generally admitted, that had the United States not entered the war Germany would have dictated the treaty of peace. An important part of this country's aid consisted in providing the Allies with foodstuffs and war supplies bought here with the billions loaned to the Allies when they were at the ends of their financial ropes. A total of $10,000,000,000 was made available by Congress and the American people through the four Liberty loans for "such foreign governments then engaged in war with the enemies of the United States," their obligations to bear the same rate of interest and contain the same terms and conditions as the Liberty Loan Acts.

The form of obligation or promissory note taken from the foreign government borrowers follows, the British form being used as the example:

Certificate of Indebtedness

The Government of the United Kingdom of Great Britain and Ireland, for value received, promises to pay the United States of America, or assigns, the sum of .... on demand, with the interest from the date hereof, at the rate of 5 per cent per annum. Such principal sum and the interest thereon will be paid at the Sub-Treasury of the United States in New York, or, at the option of the holder, at the Treasury of the United States in Washington, in gold coin of the United States of America of the present standard of weight and fineness, or, at the option of the holder, at the Bank of England, London, England, in pounds sterling at the fixed rate of $4.76 7-16 to the pound sterling, and at any such place of payment without deduction of any British taxes, present or future.

This certificate will be converted by the Government of the United Kingdom of Great Britain and Ireland, if requested by the Secretary of the Treasury of the United States of America, at par, with an adjustment of accrued interest, into an equal amount of five per cent convertible gold bonds of the Government of the United Kingdom of Great Britain and Ireland conforming to the provisions of acts of Congress known respectively as second Liberty bond act, third Liberty bond act and fourth Liberty bond act. If bonds of the United States issued under authority of said acts shall be converted into other bonds of the United States bearing a higher rate of interest than four and one-half per cent per annum, a proportionate part of the obligations of the Government of the United Kingdom of Great Britain and Ireland of this series acquired by the United States under authority of said acts shall, at the request of said Secretary of the Treasury, be converted into obligations of said Government of the United Kingdom of Great Britain and Ireland bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceeds the interest rate of four and one-half per cent but not less than the highest rate of interest borne by such bonds of the United States.

....

For the Government of the United Kingdom of Great Britain and Ireland.

Dated this ...... day of ......, 19..

The loans made under the Liberty Loan Acts to nine European governments, with the amounts paid on the principal and interest and the amounts of interest accrued and unpaid up to November 15, 1921, are given in Table 1 (see page 16).

Of the credits established for European governments there remained on November 30, 1921, $39,309,463.41, on which no advances had then been made. In addition to this sum $289,474,689.44 is left as an unused balance from the $10,000,000,000 originally provided by Congress.

Other obligations accepted from foreign governments are for surplus war materials remaining in Europe after the war and for foodstuffs for European relief through the American Relief Administration and the United States Grain Cor-

TABLE 1

OBLIGATIONS OF EUROPEAN GOVERNMENTS TO THE UNITED STATES FOR ADVANCES MADE UNDER THE LIBERTY BOND ACTS

Country	Credits established	Cash advanced to Nov. 30, 1921	Repayments of principal to Nov. 15, 1921	Interest accrued to Nov. 15, 1921, and unpaid	Interest paid to Nov. 15, 1921
Belgium	$349,214,467.89	$349,214,467.89	$1,522,901.66	$42,699,698.78	$10,907,281.55
Czecho-Slovakia	67,329,041.10	61,256,206.74*a*	....	7,059,700.47	304,178.09
France	2,997,477,800.00	2,997,477,800.00	46,714,861.81	357,917,937.09	129,570,376.13
Great Britain	4,277,000,000.00	4,277,000,000.00	110,681,641.56	509,173,742.89	247,844,685.50
Greece	48,236,629.05*b*	15,000,000.00	....	....	1,159,153.34
Italy	1,648,034,050.90	1,648,034,050.90	....	202,279,732.07	57,598,852.62
Jugo-Slavia (*c*)	26,780,465.56	26,780,465.56	605,326.34	3,306,757.69	636,059.14
Roumania	25,000,000.00	25,000,000.00	1,794,180.48	2,765,412.02	263,313.74
Russia	187,729,750.00	187,729,750.00	....	23,479,096.80	4,872,811.50
Total	$9,626,802,204.50	$9,587,492,741.09*d*	$161,318,911.85*e*	$1,155,499,963.06*f*	$453,156,711.61

(*a*) There is a balance of $6,072,834.36 under the established credits.

(*b*) Another charge against the credits amounts to $33,236,629.05.

(*c*) The term Jugo-Slavia is used in these tables to designate both Serbia, as it existed in 1914, and the Serb, Croat and Slovene State.

(*d*) All these sums were originally borrowed under the Liberty Bond Acts as payable upon demand, with interest at 5 per cent computed semi-annually.

(*e*) From the proceeds of repayments of principal the Treasury Department purchased during the fiscal year ended June 30, 1921, Liberty bonds to the face amount of $73,939,300.

(*f*) Includes $6,817,885.25 interest accrued and remaining unpaid (in excess of certain special funds held in the United States Treasury to be applied on account of interest due May 15, 1918, and November 15, 1918) on Russian obligations for the half year ending November 15, 1918, and the half years ending April 15, 1919, and May 15, 1919.

TABLE 2

OBLIGATIONS OF EUROPEAN GOVERNMENTS TO THE UNITED STATES FOR SURPLUS WAR SUPPLIES AND FOODSTUFFS

Country	Sales of surplus war supplies	American Relief Administration	U. S. Grain Corporation	Interest accrued and unpaid (*a*)	Interest paid to Nov. 15, 1921
Armenia	....	$8,028,412.15	$3,931,505.34	$1,079,260.95	....
Austria	....	....	24,055,708.92	1,443.342.54	....
Belgium	$29,872,732.54	....	....	....	$2,797,351.40
Czecho-Slovakia	20,621,994.54	6,428,089.19	2,873,238.25	2,744,690.85	....
Esthonia	12,213,377.88	1,785,767.72	....	1,389,668.37	....
Finland	....	8,281,926.17	....	598,339.79	....
France	407,341,145.01	....	....	492,507.18	20,038,719.13
Hungary	....	....	1,685,835.61	101,150.14	....
Jugo-Slavia	24,978,020.99	....	....	2,133,448.72	....
Latvia	2,521,869.32	2,610,417.82	....	386,962.52	126,266.19
Lithuania	4,159,491.96	822,136.07	....	498,162.80	....
Poland	59,636,320.25	51,671,749.36	24,312,514.37	10,741,577.71	1,290,620.78
Roumania	12,922,675.42	....	....	1,292,267.56	....
Russia	406,082.30	4,465,465.07	....	476,364.84	10,179.87
Total	$574,673,710.21	$84,093,963.55	$56,858,802.49	$23,377,743.97	$24,263,137.37

(*a*) Interest accrued and remaining unpaid up to and including the last interest-payment date preceding November 15, 1921, on foreign obligations received from the Secretary of War and the Secretary of the Navy on account of sales of surplus war supplies (Act of July 9, 1918), on foreign obligations held by the Treasury and received from the American Relief Administration (Act of February 25, 1919), and on foreign obligations held by the United States Grain Corporation (Act of March 30, 1920).

The rate of interest on all these obligations is 5 per cent.

The dates of these obligations range from April 10, 1919, to November 1, 1920.

The dates of maturity of the various obligations extend from June 30, 1920, to May 9, 1930.

poration. These obligations, with the interest paid and the interest accrued and unpaid, up to November 15, 1921, are detailed in Table 2 (see page 17).

Table 3 (see page 19) gives the totals of the original obligations and the total debts owed on November 15, 1921, by eighteen European governments and so-called governments to the United States, with the total amounts paid on account of principal and interest and the total amounts of unpaid interest.

The total sum of $11,313,860,127.27 owed by these eighteen European governments is now the most important factor, not only of the United States government's credits but also in the field of international credit, and it will continue so for many years to come.

Nor is this $11,313,860,127.27 all that Europe owes us. Private loans, investments and commercial transactions must be added.

The government, state, municipal and corporate loans placed in the United States by Europe and outstanding on June 1, 1921, amounted to $1,101,826,200. Table 4 (see page 20) shows this indebtedness in detail, the figures being based on compilations made by the Guaranty Trust Company of New York, from the most accurate and complete information available. But this tabulation does not include subscriptions in the United States to foreign loans, since the amounts of such subscriptions are not available, nor does it include most

TABLE 3

TOTALS OF WAR AND POST-WAR DEBTS OWED TO THE UNITED STATES GOVERNMENT BY EUROPEAN GOVERNMENTS

Country	Total obligations	Total payments on principal	Total interest accrued and unpaid	Total interest paid	Total debt to Nov. 15, 1921
Armenia	$11,959,917.49	....	$1,079,260.95	....	$13,039,178.44
Austria	24,055,708.92	....	1,443,342.54	....	25,499,051.46
Belgium	379,087,200.43	$1,522,901.66	42,699,698.78	$13,704,632.95	420,263,997.55
Czecho-Slovakia	91,179,528.72	....	9,804,391.32	304,178.09	100,983,920.04
Esthonia	13,999,145.60	....	1,389,668.37	....	15,388,813.97
Finland	8,281,926.17	....	598,339.79	....	8,880,265.96
France	3,404,818,945.01	46,714.861.81	358,410,444.27	149,609,095.26	3,716,514,527.47
Great Britain	4,277,000,000.00	110,681,641.56	509,173,742.89	247,844,685.50	4,675,492,101.33
Greece	15,000,000.00	....	....	1,159,153.34	15,000,000.00
Hungary	1,685,835.61	....	101,150.14	....	1,786,985.75
Italy	1,648,034,050.90	....	202,279,732.07	57,598,852.62	1,850,313,782.97
Jugo-Slavia	51,758,486.55	605,326.34	5,440,206.41	636,059.14	56,593,366.62
Latvia	5,132,287.14	....	386,962.52	....	5,519,249.66
Lithuania	4,981,628.03	....	498,162.80	....	5,479,790.83
Poland	135,620,583.98	....	10,741,577.71	1,290,620.78	146,362,161.69
Roumania	37,922,675.42	1,794,180.48	4,057,679.58	263,313.74	40,186,174.52
Russia	192,601,297.37	....	23,955,461.64	4,882,991.37	216,556,759.01
Total	$10,303,119,217.34	$161,318,911.85	$1,172,059,821.78	$477,293,582.79	$11,313,860,127.27

TABLE

STATEMENT OF EUROPEAN GOVERNMENT, MUNICIPAL AND CORPORATE LOANS PLACED IN THE UNITED STATES

Country	Government	State and municipal	Industrial	Total
Belligerent Countries of Europe:				
Belgium	$96,225,000	....	$10,800,000	$107,025,000
France	197,785,200	$64,687,700	1,000,000	263,472,900
Germany	2,000,000	....	....	2,000,000
Italy	10,000,000	....	....	10,000,000
Russia	75,000,000	....	....	75,000,000
United Kingdom	450,016,800	....	15,000,000	465,016,800
Neutral Countries of Europe:				
Denmark	40,000,000	15,000,000	....	55,000,000
Norway	24,500,000	8,766,500	....	33,266,500
Sweden	25,000,000	....	....	25,000,000
Switzerland	54,285,000	11,760,000	....	66,045,000
Total	$974,812,000	$100,214,200	$26,800,000	$1,101,826,200

of the foreign currency issues placed in this country nor issues partly sold here and partly in other countries.

To this total of $1,101,826,200 for such private loans and to the $11,313,860,127 of United States Government loans must be added the European investments of American corporations and individuals and the commercial obligations held by Americans against Europe for manufactured and raw materials sold since the war. Exact figures for these two classes of debts cannot be given, but conservative estimates place them at not less than $3,500,000,000.

Total owed by Europe to United States—about $16,000,000,000.

Estimate our credits in foreign countries outside of Europe at $2,000,000,000, and it is seen that in seven years the United States, which in 1914 was a debtor country, has risen to the position of the world's leading creditor nation, with $18,000,000,000 of all kinds of investments abroad. This is some two billions less than the balance which Great Britain had abroad in 1914, after centuries of trading and investing in all parts of the world. When the war broke out Great Britain possessed foreign credits amounting to more than £4,000,000,000—more than $20,000,000,000 at par of exchange. Of this amount the British had to use about one-fourth during the war to meet foreign obligations, chiefly for American products. To-day Great Britain, at the same time our chief debtor and her continental allies' creditor, is in a difficult financial situation, but she is not trying to collect the $9,000,000,000 of war debts due her from her former allies, if only for the reason that she knows they cannot be collected, at least not in actual cash.

For the sake of prosperity in the United States the day can come none too quickly when the American people will have advanced from creditors who want "payment in 30 days" to keen investors in foreign industries, who will say to those $16,000,000,000 and more, "Stay in Europe and work for us; we don't want you here, we can't afford to have you come back home."

III

BILLIONS FOR REFUNDING, BUT NOT ONE CENT FOR CANCELLATION

THE European countries owing us $11,000,000,000 and more are only too willing to settle their debts—by cancellation. Such an easy method of ending all these complicated and burdensome transactions of the war appeals to the debtors in Europe, but it finds little support among the American people, who, still paying for the war, feel they have heard too much on the subject from European sources.

This propaganda of cancellation, born shortly after the Armistice, has led an interesting career. The first cancellation proposal to reach Washington through official channels was contained in a cablegram of December 4, 1918, sent to Secretary of the Treasury McAdoo through the American Embassy in London. Here is a part of this cablegram: "Chancellor of the Exchequer revived suggestions made before of possibility of cancellation of all loans made by one associated government to any other for the conduct of the war. I stated that so far as I know such an idea had never for a moment been entertained by you, and the subject was dropped. Similar suggestions in unofficial but important quarters are not infrequent in London and Paris.

"Second. Keynes has suggested in several conversations the theory that future aid to Allies should now be taken over by us so that as nearly as possible our loans to Allies should equal those of the British. This thought appears also in letter from the Chancellor to me, received to-day, referring to Italian situation in which statement is made that the Chancellor called attention of Stringher to fact that the aggregate of British government loans to Italy were double those of the United States and that their further action toward Italy must be determined by Italian arrangements with us."

Further suggestions, emanating from English sources, kept the cancellation ball rolling. Austen Chamberlain, Chancellor of the Exchequer, played with the ball a number of times, but it was President Wilson himself who kicked it right into the Treasury Department, which prepared for him a memorandum beginning, "Your recent message through the British Embassy, in which among other matters you advocate a general cancellation of intergovernmental war debts, has been received," and ending after detailed consideration of the subject with the following:

"A proposal that the United States should cancel its debts against the allied governments would simply result, in effect, in the cancellation by one of the principal creditors of its claims in order that the claims of the other creditors might remain intact, and would transfer from the peoples of the debtor governments to the shoulders of the people of the United States the taxes necessary to liquidate the outstanding obligations of the United States government representing the loans made by it to the allied governments. The United States government in little over two years raised for war purposes through taxes and loans approximately $37,000,000,000, out of which were made to the allied governments the loans to assist them in winning the war. The United States government has neither received nor sought substantial material benefits from the war or under the terms of the treaty of peace. On the other hand, the Allies, although having suffered greatly in loss of lives and property, have under the terms of the treaty and otherwise acquired accessions of territories, properties, raw materials and other advantages, including their claims against Germany for vast indemnities. It would seem that if full account were taken of these there would be no incentive, desire or reason to call upon the United States for further contributions."

The British cancellation proposals continued under discussion in cables, letters and informal conversations until in October, 1920, Secretary of the Treasury Houston wrote that the Treasury Department refused to consider cancellation as a form of settlement of the debts, this after the British Prime Minister, Lloyd George, had sent the following to President Wilson on August 5, 1920: "I come now to another question I wish to write you about, and that is the knotty problem of interallied indebtedness. Indeed, I promised Mr. Rathbone [an assistant secretary of the Treasury who was abroad the winter of 1919-1920 negotiating the matter] long ago that I would write to you about it, but I have had to put it off for one reason and another till now.

"The British and French governments have been discussing, during the last four months, the question of giving fixity and definiteness to Germany's reparation obligations. The British government has stood steadily by the view that it was vital that Germany's liabilities should be fixed at a figure which it was within the reasonable capacity of Germany to pay, and that this figure should be fixed without delay because the reconstruction of Central Europe could not begin nor could the Allies themselves raise money on the strength of Germany's obligation to pay them reparation until her liabilities had been exactly defined. After great difficulty with his own people, M. Millerand found himself able to accept this view, but he pointed out that it was impossible for France to agree to accept anything less than it was entitled to under the treaty, unless its debts to its Allies and associates in the war were treated in the same way.

"This declaration appeared to the British government eminently fair. But after careful consideration they came to the conclusion that it was impossible to remit any part of what was owed to them by France except as part and parcel of all-around settlement of interallied indebtedness. I need not go into the reasons which led to this conclusion which must be clear to you; but the principal reason was that British public opinion would never support a one-sided arrangement at its sole expense, and that if such a one-sided arrangement were made it could not fail to estrange and eventually embitter the relations between the American and British people, with calamitous results to the future of the world. You will remember that Great Britain borrowed from the United States about half as much as its total loans to the Allies, and that after America's entry into the war, it lent to the Allies almost exactly the same amount as it borrowed from the United States of America. Accordingly the British government has informed the French government that it will agree to any equitable arrangement for the reduction or cancellation of interallied indebtedness, but that such an arrangement must be one which applies all around.

"As you know, the representatives of the Allies and of Germany are meeting at Geneva in a week or two to commence discussion on the subject of reparation. I recognize that in the midst of a Presidential election and with Congress not in session, it is impossible for the United States to deal with this question in a practical manner, but the question is one of such importance to the future of Europe, and indeed to the relations between the allied and associated powers, that I should very much welcome any advice which you might feel yourself able to give me as to the best method of securing that the whole problem could be considered and settled by the United States government in concert with its associates at the earliest possible moment that the political situation in America makes it possible.

"There is one other point which I would like to add. When the British government decided that it could not deal with the question of the debts owed to it by its Allies except as part and parcel of an all-around arrangement of interallied debts, the Chancellor of the Exchequer told Mr. Rathbone that he could not proceed any further with the negotiations which they had been conducting together with regard to the postponement of the payment of interest on the funding of Great Britain's debts to America. I should like to make it plain that this is due to no reluctance on the part of Great Britain to fund its debt, but solely to the fact that it cannot bind itself to any arrangement which would prejudice the working of any interallied arrangement which may be reached in the future. If some method can be found for funding the British debt which does not prejudice the larger question, the British government would be glad to fall in with it."

So much for Lloyd George and his opinion on refunding and cancellation, which differs radically from the official American point of view. Before the Senate Committee on Finance, Secretary of the Treasury Mellon has given his assurance that cancellation is not his idea of the manner in which Europe's debts to the United States should be settled:

THE CHAIRMAN (Senator Penrose). Mr. Mellon, there is no intention on the part of the present Administration to cancel or forgive any part of this indebtedness of foreign nations, is there?

SECRETARY MELLON. No.

THE CHAIRMAN. That has been bruited abroad, though so far as conditions are at present it is absolutely without foundation.

SECRETARY MELLON. The examination of all these memoranda in the cases shows that there has not anything been done nor has any suggestion been made on the part of the Treasury in that direction. They have all along taken the position that these are obligations owing to this country, and valid obligations that must be eventually paid.

To this denial of Secretary Mellon's was added a statement from the White House that our Government did not intend to cancel the debts owed by the governments of Europe.

But the propaganda of cancellation continues, not only on the part of the debtors but even with the aid of a few Americans. Among those in this country urging cancellation are Justice John H.

Clarke, of the Supreme Court; Professor Edwin Seligman, of Columbia University, and Otto H. Kahn, of Kuhn, Loeb & Co. They consider that our war loans should be regarded as a part of America's contribution to the war.

Nevertheless, these obligations of $11,000,000,000 and more constitute a just debt, both legally and morally. Nothing in the original loans or in our association with the Allies affords any basis for the claim that the debts should be considered as an American contribution to the war and therefore cancelled. When the loans were provided for by Congress and later negotiated with representatives of the allied governments the sums involved were not looked upon as gifts, but as dollars—not pounds, francs or lire—borrowed by the United States government, which, while loaning these dollars to European governments, promptly paid France, Italy and Great Britain for all services and supplies.

Assume, for the moment, that Europe's entire $11,000,000,000 indebtedness to our government is wiped out to-morrow by an act of Congress. Would the cancelling of the debts assure the economic recovery of Europe? Would currency become stabilized? Would our export trade and industrial situation improve?

If Europe cast aside her worn-out economic and political machinery, created new institutions to fit the needs of new conditions, cancellation would help her economic recovery and hasten the process of stabilization. But thorough reform in Europe would eliminate the need for cancellation. So long as Europe remains what she is, so long as she fails to effect economic and political reforms, wiping this immense debt off her slate would not increase production and fixed capital, would not put workers into factories and on the land under more favorable living conditions, would not relieve the masses of their burdens of taxation. Cancellation would not mean better food, better clothing, better homes, better working hours for any but politicians, speculators and holders of large sums of money. For Europe of to-day the cancelling of inter-governmental debts would mean freedom to continue wasteful methods and to spend larger sums on preparations for war.

In particular, cancellation would mean more for Great Britain than for any other country, and in this unrevealed fact may lie the reason that London has fostered the cancellation idea and has persistently kept it before the world. If the inter-governmental debts were all cancelled, the United States would lose $11,000,000,000 and more, whereas Great Britain, the only other important creditor nation, would lose only about $5,000,000,000, since she owes approximately $4,000,000,000 to us, while other governments owe her about $9,000,000,000. Our foreign credits would be reduced by this cancellation process from $18,000,000,000 to $7,000,000,000, and Great Britain's loans and investments abroad would stand at about

$15,000,000,000. By cancellation Great Britain would displace the United States as the world's chief creditor nation.

As matters now stand, the United States' investment in the war totals $45,000,000,000, the only items on the credit side being some German shipping and the famous eleven billions. The gross cost of the war to Great Britain is put at about $52,000,000,000, against which may be credited a certain amount of German shipping, an uncertain amount of German reparation money, $9,000,000,000 owed to her by other governments, and Mesopotamia, German East Africa, German West Africa, Togoland and a number of Pacific islands. About $55,000,000,000 is the estimated gross cost of the war to France. Against this sum France can credit Alsace-Lorraine, Germany's rights in equatorial Africa, the Saar Basin mines, coal, live stock and paid and unpaid reparation sums. Italy's war cost is estimated at less than $20,000,000,000, against which are to be credited about 12,000 square miles of Austro-Hungarian territory, large shipments of coal and an unsettled reparation amount.

At the Peace Conference we asked for no territory, only for the German shipping seized in our harbors and for world-wide peace, and despite the invaluable services rendered by the United States in the war we have had little consideration from the Allies except when they have thought their purses would benefit. This selfish side of Europe the American people know only too well, and Congress, representing the American people, gave it full consideration in preparing the bill which provides for the refunding of the debts owed the United States government by eighteen governments and so-called governments of Europe.

Supported by President Harding, Secretary Mellon asked Congress to pass a bill authorizing the Secretary of the Treasury "from time to time to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now owing to the United States of America, or any obligation of any foreign government hereafter received by the United States of America (including obligations held by the United States Grain Corporation), arising out of the European War, into bonds or other obligations of such, or of any other, foreign government, and from time to time to receive bonds of any foreign government in substitution for those now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America, and to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign government and to accept securities therefor."

The Senate Committee on Finance was unwilling to report a bill giving so free a hand to the Secretary of the Treasury. The hearings held on the bill in June and July, 1921, and its consideration by Congress early in 1922 brought out strong opposition on the part of various senators against any suggestion of cancellation, against acceptance of bonds of other than the debtor nations, especially German bonds, and against any provisions other than a specified minimum rate of interest and a definite limit upon the period over which the debts might be refunded.

As passed by the Senate and the House of Representatives and signed by President Harding on February 9, 1922, although he objected to the changes made in the original bill, the "act to create a commission authorized under certain conditions to refund or convert obligations of foreign governments held by the United States of America, and for other purposes," is as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That a World War Foreign Debt Commission is hereby created consisting of five members, one of whom shall be the Secretary of the Treasury, who shall serve as chairman, and four of whom shall be appointed by the President, by and with the advice and consent of the Senate.

SEC. 2. That, subject to the approval of the

President, the commission created by section 1 is hereby authorized to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now held by the United States of America, or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation, the War Department, the Navy Department, or the American Relief Administration), arising out of the World War, into bonds or other obligations of such foreign Government in substitution for the bonds or other obligations of such Government now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America: *Provided,* That nothing contained in this Act shall be construed to authorize or empower the commission to extend the time of maturity of any such bonds or other obligations due the United States of America by any foreign Government beyond June 15, 1947, or to fix the rate of interest at less than $4\frac{1}{4}$ per centum per annum: *Provided further,* That when the bond or other obligation of any such Government has been refunded or converted as herein provided, the authority of the commission over such refunded or converted bond or other obligation shall cease.

SEC. 3. That this Act shall not be construed to authorize the exchange of bonds or other obligations of any foreign Government for those of any other foreign Government, or cancellation of any part of such indebtedness except through payment thereof.

SEC. 4. That the authority granted by this Act shall cease and determine at the end of three years from the date of the passage of this Act.

SEC. 5. That the annual report of this commission shall be included in the Annual Report of the Secretary of the Treasury on the state of the finances, but said commission shall immediately transmit to the Congress copies of any refunding agreements entered into, with the approval of the President, by each foreign Government upon the completion of the authority granted under this Act.

This refunding act contains no provision for the payment of accrued interest or of future interest at any stated periods. The World War Foreign Debt Commission authorized by the act had as its original members Secretary of the Treasury Mellon, Secretary of State Hughes, Secretary of Commerce Hoover, Senator Reed Smoot of Utah, and Representative Theodore Burton of Ohio.

The answer of the British treasury to the enactment of the refunding bill was the presentation of a plan in March, 1922, to wipe out all intergovernmental war debts and credit the amount to the account of German reparations. This reduction of German reparation payments, according to the Chancellor of the Exchequer, Sir Robert Horne, was dependent upon the United States' cancellation of Europe's $11,000,000,000 debt. In other words, Lloyd George had revived the scheme to involve the United States in the payment of an important part of the German reparation sums demanded by the Allies.

The passing of the refunding bill by Congress and the establishment of the commission to carry out its provisions should have served to make known to Europe, if she had any doubts on the subject, that the great majority of the American people are willing to provide billions for refunding, but not one cent for cancellation.

IV

INCREASING DEBTS AND UNBALANCED BUDGETS

With the enactment of the refunding bill the United States asked the eighteen debtor countries of Europe to recognize their debts to this government, end all talk of cancellation and get down to business. And settling down to business on the part of the continental debtors involves their internal debts as well as the large sums owed to the chief creditor nations, England and the United States. Juggling budgets instead of balancing them does not conceal their latent bankruptcy, does not attract the American investor.

Of the European belligerents and the new countries born at Versailles not one actually made both ends meet last year. Their balance sheets show gaps of varying sizes between income and gross expenditure. Enormous deficits produced by the war have kept expenditures at an abnormal level, but the fiscal systems of European state finance leave much to be desired, especially by a creditor or a possible investor. On top of heavy current expenditures are piled interest on war debts—none required as yet on our loans—pensions, subsidies for food, coal, unemployment, housing and railroads, and appropriations for armaments. Expenditures for war, past and future, represent a great proportion of the burden of taxation. In some of the countries past-war taxes plus next-war taxes, that is, current military expenditures, constitute a crushing burden.

Even some of the neutral countries of Europe are having serious financial troubles. Their budget difficulties are due, for the most part, to the growth of government expenses caused by the rise of prices and the granting of subsidies, although in the case of Holland and Switzerland heavy expenditure was directly caused by the war. The neutrals have solved their problem by increased taxation, with the exception of Holland, Spain and Switzerland, which borrowed large sums. However, the European neutrals all added to their gold reserves during the war, opened credits for the belligerents and repatriated considerable amounts of national securities held abroad.

The general financial situation of neutrals and belligerents is represented in Table 5 (see pages 40 and 41), compiled largely from the reports of the International Financial Conference at Brussels. This table gives the net budgets of each country, unless otherwise noted, the revenue figures, including receipts from all sources except loans, and the expenditure figures, covering all items of both ordinary and extraordinary budgets except in case of provision for amortization.

TABLE 5

POST-WAR BUDGETS OF THE PRINCIPAL COUNTRIES OF THE WORLD

Country	Fiscal year	Currency	Revenue	Expenditure	Balance	Balance in percentage of expenditure
Belligerent Countries of Europe:						
Austria (*a*)	1920	Krone	20,655,000	33,194,000	—12,539,000	—38
Belgium	1920	Franc	3,020,702,000	8,578,454,000	—5,557,752,000	—69
Bulgaria (*a*)	1920–21	Lev	1,803,000,000	2,994,903,000	—1,191,903,000	—40
Czecho-Slovakia (*b*)	1922	Krone	18,884,000,000	19,672,000,000	—788,000,000	—4
Esthonia (*a*)	1920	Mark	1,091,650,000	2,450,603,000	—1,358,953,000	—55
Finland	1919	Mark	778,717,000	1,163,968,000	—385,251,000	—33
France (*c*)	1920	Franc	19,735,022,000	45,987,358,000	—26,252,336,000	—57
Germany	1920–21	Mark	27,770,000,000	51,892,363,000	—24,122,363,000	—46
Greece	1920–21	Drachma	636,325,000	1,874,003,000	—1,237,678,000	—66
Hungary (*a*)	1920–21	Krone	10,539,947,000	20,210,748,000	—9,670,801,000	—48
Italy (*d*)	1920–21	Lira	18,336,000,000	23,348,000,000	—18,930,000,000	—21
Jugo-Slavia	1919–20	Dinar	....	....	—2,000,000,000	....
Latvia (*a, e*)	1920	Ruble	272,325,000	640,930,000	—368,605,000	—57
Lithuania (*a*)	1920	Mark	684,000,000	768,030,000	—84,030,000	—11
Poland (*a*)	1919–20	Mark	3,127,625,000	15,189,679,000	—12,062,054,000	—79
Portugal	1920–21	Milreis	110,418,000	235,525,000	—125,107,000	—53
Roumania (*a, f*)	1920–21	Leu	6,115,920,000	6,625,000,000	—509,080,000	—8
United Kingdom	1920–21	£	1,365,300,000	1,131,100,000	+234,200,000	+6

(*a*) Gross budget.

(*b*) Czecho-Slovakia's budget for 1920 called for a revenue of 7,750,771,000 crowns and for expenditures of 19,672,000,000, the balance in percentage of expenditure amounting to —26.

(*c*) The ordinary budget of France for 1922 proposes expenditures of 24,688,000,000 francs, the extraordinary budget expenditures of 7,159,000,000 francs, the receipts being 24,702,000,000 francs and uncertain indemnity payments. The 1921 expenditures, according to the ordinary budget were 26,499,200,000 francs; in 1914 they were 5,191,700,000 francs.

(*d*) Italy's budget for the fiscal year 1921–22 estimates receipts at 17,602,000,000 lire, and expenditures at 20,454,000,000. The budget for 1919–20 had receipts at 9,520,000,000 lire, and expenditures at 28,450,000,000, the balance in percentage of expenditure amounting to —67.

(*e*) First quarter only of 1920.

(*f*) The ordinary budget; the deficit will be much larger.

TABLE 5—Continued

POST-WAR BUDGETS OF THE PRINCIPAL COUNTRIES OF THE WORLD

Country	Fiscal year	Currency	Revenue	Expenditure	Balance	Balance in percentage of expenditure
Neutral Countries of Europe:						
Denmark	1918–19	Krone	457,900,000	643,100,000	—185,200,000	—29
Holland	1920	Gulden	615,183,000	724,192,000	—109,009,000	—15
Luxemburg	1919	Franc	39,169,000	97,903,000	—58,734,000	—60
Norway	1919–20	Krone	529,937,000	584,085,000	—54,148,000	—9
Spain (*a*)	1920–21	Peseta	1,842,721,000	2,403,730,000	—561,009,000	—23
Sweden	1921	Krona	1,131,000,000	1,131,000,000	....	....
Switzerland	1920	Franc	381,400,000	604,066,000	—222,666,000	—37
Countries outside Europe:						
Argentine	1918–19	Peso	396,756,000	402,237,000	—5,481,000	—1
Brazil	1920	Milreis gold	358,637,000	384,153,000	—26,516,000	—7
China	1918–19	Chinese $	439,472,000	495,762,000	—56,291,000	—11
Japan	1920–21	Yen	938,882,000	1,134,968,000	—196,086,000	—17
Peru (*a*)	1919	Peruvian £	6,606,000	6,562,000	+44,000	+0.7
United States	1920–21	$	5,538,041,000	5,624,933,000	+86,892,000	+1.5
Uruguay (*a*)	1920	Milreis	38,043,000	41,109,000	—3,066,000	—7
British Possessions:						
Australia	1918–19	£	39,209,000	107,033,000	—67,824,000	—63
Canada	1920–21	$	323,106,000	819,926,000	—496,820,000	—60
India	1920–21	£ (15 rupees)	104,772,000	102,258,000	+2,514,000	+2
New Zealand	1919–20	£	19,782,000	46,727,000	—26,945,000	—58
South Africa	1920–21	£	28,441,000	40,048,000	—11,607,000	—29

With the amazing figures of Table 5 before it the Brussels conference pointed out that the first duty of public finance is for a government to pay its way, otherwise there is no foundation for its own economic life or for receiving assistance from others. The resolutions of the conference on public finance called upon the governments to reduce government expenditure, to bring outlay within the limits of revenue by rigidly reducing all armament costs and by abandoning all uneconomical and artificial measures, such as the artificial cheapening of foodstuffs, coal and other commodities, the payment of unemployment doles, and the maintenance of railroad fares, postal rates and other government services involving deficits.

The resolutions emphasized the fact that the reduction of prices and the restoration of prosperity are dependent on the increase of production, one of the most serious obstacles to this increase being the continued excess of government expenditure over revenue as represented in the budget deficits, which involve further inflation of credit, further depreciation in the purchasing power of domestic currency, increased instability of foreign exchange and further rises in prices and in the cost of living.

The total internal debt of the European belligerents, converted into dollars at par, amounts to over \$150,000,000,000, compared with approximately \$17,000,000,000 in 1913. Even when full allowance is made for the return of depreciated currencies toward their normal value, the post-war debt represents a tremendous burden in proportion to the total national income of the belligerent countries. However, in the opinion of the Brussels conference "the external debt, amounting to about $11,000,000,000 due to the United States and to £1,750,000,000 due to the United Kingdom, presents an even more difficult problem, because in nearly every case it is payable in a currency which is less depreciated than that of the country concerned."

The effect of the war on government indebtedness and the results of post-war profligacy appear in Table 6 (see pages 44 and 45), based upon statistics assembled by O. P. Austin, of the National City Bank of New York. These figures, in dollars at pre-war value, taken with the totals for the remaining countries of the world, give an increasing total of world indebtedness, from $43,000,000,000 in 1913 to $205,000,000,000 in 1918, the last year of the war; $295,000,000,000 in 1919, the first year of peace, and an estimated total of $400,000,000,000 for 1921, three years after the Armistice.

That the economic situation of the world is serious may be seen even by the man who runs and reads. Europe's affairs approach nearest to the critical point, a situation that may be charged to the victorious Allies, unconquered Germany and Bolshevist Russia, which have provided the world with three disgraceful pages in history through

TABLE 6

NATIONAL DEBTS OF THE PRINCIPAL COUNTRIES OF THE WORLD

(Estimated in Dollars at Par of Exchange)

Country	1913	1918	1919	1921
Belligerent Countries of Europe:				
Austria (*a*)	$2,152,000,000	$15,807,000,000	$16,910,000,000	$15,834,000,000
Belgium	722,000,000	1,902,000,000*b*	1,902,000,000	4,670,000,000
Bulgaria	135,000,000*c*	900,000,000	1,432,000,000	1,432,000,000
Czecho-Slovakia	....	....	7,000,000,000*d*	9,135,000,000
Esthonia	....	....	....	80,000,000
Finland	34,000,000	120,000,000	357,000,000	382,000,000
France	6,346,000,000	30,400,000,000	40,000,000,000	51,000,000,000
Germany	1,194,000,000	39,200,000,000	48,552,000,000	71,000,000,000
German States	3,855,000,000	4,341,000,000*e*	4,500,000,000	8,300,000,000*d*
Greece	207,000,000	248,000,000	469,000,000	812,000,000
Hungary (*a*)	1,731,000,000	8,514,000,000	9,412,000,000	14,200,000,000
Italy	2,931,000,000	12,000,000,000	13,102,000,000	18,650,000,000
Jugo-Slavia	174,000,000*i*	546,000,000	705,000,000	705,000,000*d*
Latvia	....	....	11,000,000	11,000,000*b*
Lithuania	....	....	10,000,000	10,000,000
Poland	....	....	36,650,000,000*d*	69,000,000,000
Portugal	948,000,000	1,290,000,000	1,294,000,000	1,880,000,000
Roumania	317,000,000	1,022,000,000	4,100,000,000	5,270,000,000
Russia	4,538,000,000	22,774,000,000	....	....
Turkey	676,000,000	2,000,000,000	2,310,000,000	2,310,000,000*b*
United Kingdom	3,486,000,000	28,613,000,000	36,401,000,000	37,910,000,000

(*a*) Includes share of Austro-Hungarian debt. (*b*) 1919. (*c*) 1912. (*d*) 1920. (*e*) 1917.
(*f*) 1914. (*g*) 1910. (*h*) 1916. (*i*) 1918.
(*j*) National debt of Serbia, 1913.
(*k*) Exclusive of debt of Swiss state railways, given at 430,000,000 francs in 1921.
(*l*) According to statement of Minister of Finance, June 30, 1921.

TABLE 6—Continued

NATIONAL DEBTS OF THE PRINCIPAL COUNTRIES OF THE WORLD

(Estimated in Dollars at Par of Exchange)

Country	1913	1918	1919	1921
Neutral Countries of Europe:				
Denmark	96,000,000	162,000,000	210,000,000	215,000,000
Holland	462,000,000*f*	652,000,000	981,000,000	1,046,000,000
Luxemburg	2,000,000*g*	9,000,000*e*	25,000,000*d*	36,000,000*d*
Norway	97,000,000	197,000,000	268,000,000	203,000,000*d*
Spain	1,814,000,000	1,661,000,000	1,986,000,000	2,335,000,000
Sweden	161,000,000	268,000,000	298,000,000	340,000,000
Switzerland (*k*)	23,000,000	205,000,000	341,000,000	370,000,000
Countries outside Europe:				
Argentina	732,000,000	866,000,000	576,000,000	758,000,000
Bolivia	19,000,000	26,000,000	27,000,000	27,000,000*b*
Brazil	664,000,000*c*	1,145,000,000	1,133,000,000	969,000,000
Chile	210,000,000	228,000,000	231,000,000	240,000,000
China	969,000,000	1,061,000,000*h*	1,886,000,000	1,886,000,000*b*
Cuba	67,000,000*f*	83,000,000	84,000,000	87,000,000
Egypt	459,000,000	460,000,000	469,000,000	461,000,000*d*
Japan	1,242,000,000	1,246,000,000	1,300,000,000	1,713,000,000
Mexico	222,000,000*c*	377,000,000	409,000,000	282,000,000*l*
Peru	34,000,000	28,000,000	28,000,000*i*	33,000,000*d*
United States	1,029,000,000	17,005,000,000	25,234,000,000	23,922,000,000
Uruguay	138,000,000	164,000,000	163,000,000	172,000,000
British Possessions:				
Australia	81,000,000	1,382,000,000	1,586,000,000	1,956,000,000
Canada	483,000,000	1,863,000,000	2,250,000,000	2,345,000,000
India	1,475,000,000*c*	1,546,000,000	2,310,000,000	2,263,000,000
New Zealand	438,000,000	734,000,000	856,000,000	978,000,000
South Africa	573,000,000	781,000,000	801,000,000	847,000,000*d*

violations of economic and moral laws, violations which have demoralized domestic and foreign business and brought suffering to millions.

Picture this bungling, debt-ridden Europe, with her foolish, frenzied, fantastic finances, her peoples suffering from underconsumption, with factories working at part capacity or not at all, money inflated, credits frozen, loans unliquidated, budgets unbalanced.

Great Britain—suffering from diminished foreign trade, unemployment and the heaviest taxation in Europe, but fortunate in having in the English and Scotch the most honest and capable business men in Europe.

France—burdened with a debt of about 300,000,000,000 francs, suffering from the fear of future German aggression, and with good reason, but using bad judgment in seeking safety and increased power through the same methods of European diplomacy that brought on the last war, losing friends and gaining little.

Belgium—a small country with a big debt, more or less forgotten because it is demanding little and going quietly about its business, or as much as the country has been able to regain.

Italy—here to-day, but where she will be tomorrow nobody knows, rolling up a public debt of 110,000,000,000 lire and trying to put her financial house in order, without any apparent intention of providing for the payment of her debt to the United States.

Germany—a country financially crippled but industrially and mentally active, whose leaders know just what they are doing and why they are doing it, even less to be trusted than the Kaiser's Germany, which destroyed the "scrap of paper," the Lusitania, Rheims Cathedral, Belgian and French homes and industries.

Austria—a war wreck, weak and hungry, left prostrate by the Big Four, a victim of the worst profiteers of Europe, overburdened with money, paper money.

Hungary—another case of total disability, brutally dismembered at the Peace Conference, and robbed by the Allies, Bolshevists and Rumanians of all but her nationalism.

The Balkan States—as Balkanic as ever, but their rivalries, grievances and needs now overshadowed by Balkanized Central Europe.

The new States—all of them, including Czecho-Slovakia, Jugo-Slavia, Poland, the Baltic States, not to forget the Irish Free State, suffering from the internal pains of party politics, from the egoism common to all small nations upon achieving their "rights," and from lack of economic knowledge and experience.

And we, the people of the United States, what is our situation?

We have not been innocent of economic sins committed during and since the war, of inflation, of private and government waste, of excess of expenditures over receipts, of business stupidities surpassing belief. But we have reformed to a large extent, business has improved, although it is far from its new post-war normal, and basic financial conditions are better than in 1921.

We are better off than any European country, but this does not mean that the economic situation of the United States is satisfactory. Europe, looking at us, sees only a nation of overwhelming wealth, our $3,657,000,000 of gold exaggerated into a much larger sum, our manufactured products and raw materials not to be desired as much as fine gold.

Europe estimates our wealth in terms of gold, but wealth is measured in value of goods rather than in metal. Our wealth increased during the period from 1914 to 1917, but in terms of goods it actually decreased after our entrance into the war, even though our towns and lands were not devastated by the enemy. Our products and shipping were destroyed at sea; our railroads deteriorated; our leading industries were diverted from peace-time commodities to war supplies; inflation and wasteful expenditure have cost public and government dearly; and the country has not yet seen the end of the costly readjustment of business. All this has meant the loss of wealth; besides, we owe ourselves almost twenty-four times the government debt of 1914, this new and enormous debt to be liquidated only by taxing our incomes, properties and products. The great increase in our public debt as a result of the war is

TABLE 7

EFFECT OF THE WAR ON THE PUBLIC DEBT OF THE UNITED STATES

Class	1914	1919	1921
Total interest-bearing debt	$967,953,310	$25,234,496,274	$24,737,352,080
Debt on which interest has ceased	1,552,560	11,109,370	10,939,620
Debt bearing no interest	1,942,993,399	2,145,364,469	1,380,941,729
Outstanding principal	2,912,499,269	27,390,970,113	25,129,233,430
Cash in the Treasury, July 1	1,885,242,260	3,135,100,630	1,685,881,151
Net debt, including matured interest obligations, etc., less cash in the Treasury	1,027,257,010	24,479,302,376	23,813,547,431
Annual interest charge on interest-bearing debt	22,891,498	1,052,233,621	1,029,434,649
Total gross debt	$1,050,148,508	$25,531,535,997	$24,842,982,080

shown in Table 7 (see page 49), with figures given for the outstanding debt on July 1 of each year.

The public debt of the United States on December 31, 1921, with a classification differing from that given in the tabulation on page 49 follows: pre-war debt, $883,784,050; Liberty bonds, $15,207,389,400; Victory bonds, $3,548,289,500; notes, series B-1924, $390,706,100; war savings certificates of indebtedness, $2,195,595,000; treasury notes, series A-1924, $311,191,600; treasury notes, series B-1924, $390,706,100; war savings securities, $651,844,374; matured debt, $11,867,-140; debt bearing no interest, $238,317,187. The total gross debt amounted to $23,438,984,351, showing a net decrease of $538,819,109 from the public debt of December 31, 1920.

That the financial situation of the United States government is no worse is due to notable economies and reforms effected under the present Administration. Important reductions in government expenditure and in taxation have been instituted, and the new Federal budget is preparing the way for additional decreases in disbursements. For the fiscal year 1920-21, ended June 30, receipts were $5,624,000,000 and expenditures $5,538,000,000. For the year ending June 30, 1922, income is expected to amount to $3,943,500,000 and outlay $3,968,000,000. The Director of the Budget, General Charles G. Dawes, anticipated that during the year 1922-23 government receipts would be $3,338,000,000 and expenditures $3,506,-

000,000, the deficiency to be met by the release of $100,000,000 tied up in the Navy Department, and by additional economies in government operation.

These figures show that the expenditures of the United States government have fallen $1,570,-000,000 from 1921 to 1922, and that from 1921 to 1923 the total reduction should amount to $2,032,000,000—no small burden removed from the people of the United States.

V

EUROPE'S PAPER, AMERICA'S GOLD

The public debts of Europe, increased to huge proportions by the war, are being financed primarily by the printing press, although this method increases the expenses of government and public during peace as well as during war. Behind the guns and shells of the World War were printing presses and paper; the guns have long since ceased firing, but the presses are still operating, in some cases at full capacity. Their outpourings of inconvertible paper serve only to enlarge the vicious circle of inflation, increasing debts, growing treasury deficits, decreased exchange values, rises in prices of commodities and services.

Trying to meet budget deficits by printing more currency always has and always will result in further depreciation, since revenues never increase rapidly enough to overtake the depreciation and permit the issuing of paper to be halted. Let inflation continue long enough and it brings about the disorganization of trade and industry and the demoralization of the people.

Until budgets are balanced no government can stop inflation, which Professor Gustav Cassel describes as the combined result of an artificial creation of purchasing power in order to finance government expenditure beyond the real capacity of the country, and of the falsification of the money market by an abnormally low rate of interest, in both cases with the assistance of an arbitrary supply of legal tender. Inflation adds nothing to the real value on which the currency's buying power is based, but depreciates the currency, reducing the actual purchasing power of each and every unit. In other words, inflation advances prices.

Once budgets are balanced and inflation stopped governments are confronted with the problem of deflation, the ticklish process of contracting paper issues and so decreasing the means of payment in relation to the nation's business. The most difficult problem connected with inflation is to bring it to a stop once it is started, while the chief task with deflation is to stop it at the right point.

Unless it is to be an operation costly both to the government and to the public, deflation has to be carried out by slow degrees and with extreme caution. Various countries, including our own, have had costly experiences with the contraction of paper issues. It would seem that we should have learned our lesson from the deflation scheme which threatened financial and commercial disaster for the country after the Civil War. Inflation brought us the false prosperity of 1919-20, deflation added to the depression of 1920-21, bringing new troubles and little relief from the high cost of living. And now we are suffering from an unusual form of inflation—too much gold.

After bitter experiences it is becoming evident to the business man that inflation and deflation are twin evils instead of being antidotes one of the other, a point which Professor Irving Fisher has been preaching in this country, fearing that the danger ahead for us is re-inflation as a reaction against the recent rapid deflation, a false remedy for our war inflation. This secondary period of inflation will come, he thinks, as a result of an upward move in the price level, and afterward the usual deflation process, unless the double object lesson of the past two years serves to provide a way of escape.

Most of our debtors in Europe, still issuing money instead of withdrawing it from circulation, are occupied with the troubles of inflation rather than with those of deflation. They are face to face with the fact that their public debts can be reduced only through payment or through repudiation. With regard to the $11,000,000,000 owed the United States government, Congress has made known through the refunding bill that it expects payment, but there are individuals, companies and banks in this country that may look forward to heavy losses through repudiation by various European governments of their paper obligations. Already several of the minor governments have indulged in repudiation by converting a part of their paper currency at a discount—conversion they call it, but it is nothing more nor less than partial repudiation.

The attempts to repudiate huge sums involving creditor nations as well as the nationals of the debtor nations will not all succeed, but repudiation on an extensive scale will come. In those European countries where inflation has reached almost unbelievable proportions, as in Austria, Poland and Russia, it is impossible that the value of their out-standing paper will ever be brought back to par. This is a fact, an unpleasant one for many investors and gamblers in exchange, that is not generally recognized. Realization of the truth of this statement lies in the application of common sense to figures showing the volume of paper money outstanding in Europe.

Dismembered Austria's paper is estimated at over 200,000,000,000 kronen, or crowns, which would be more than $50,000,000,000 at pre-war par, and her deficit for the fiscal year 1920-21 is estimated at 400,000,000,000 crowns, although the official figure is 165,000,000,000. Poland, upon its rebirth in 1919, established a new national currency, Polish marks of a par value of 23.8 cents, starting with 3,000,000,000 of them. In two years this amount increased twenty times. Before the end of 1921 the out-standing currency amounted to more than 130,000,000,000 Polish marks, quoted at about one three-hundredth of a cent, or somewhat less than one eight-hundredth of the par value. Poland's 1921 budget estimates revenues at 135,000,000,000 Polish marks and gives expenditures at 209,000,000,000, due largely to military costs. If Poland could bring her currency ultimately to par value, payment in the future of her present debt would be at many hundred times its value in 1922. In Russia at the beginning of the war the entire sum of paper rubles outstanding was 1,630,000,000. At the end of 1917 they amounted to 27,300,000,000, at the end of 1919 to 225,000,000,000, and in December, 1921, to 1,168,-000,000,000. In October, 1921, Bolshevik currency was reported to total 5,750,000,000,000. With prices in Moscow at that time 48,600 times higher than in 1914, the monetary circulation was insufficient—it was estimated that 48,600,000,000,000 rubles were needed, although the estimated amount in circulation was almost six trillions!

These figures show the utter hopelessness of any expectation that Austria, Poland and Russia will attempt to restore their currencies to pre-war values. Even under the most favorable circumstances they would find it no easy matter to pay their debts in present gold value. Imagine Russia's trying to pay her debt multiplied by 1,000. And then there is Germany, but her inflation is another story to be considered in the next chapter. Figures showing the increase in notes issued by belligerent and neutral countries over the period of the war appear in Table 10 (see page 62A).

The most depreciated of the world's currencies manage to exist because nothing better has come to take their place. With civilized man money is a habit, even when it is practically worthless. He finds barter inconvenient and expensive. Pianos for potatoes, tobacco in exchange for chickens, a clock as payment for a day's work have disadvantages not even possessed by bundles of depreciated currency necessary in bulk in certain countries to buy food, clothing and other needments.

Reducing the nominal redemption value of the most depreciated currencies is one of the important subjects for an international conference, and the problem should be dealt with soon. The sooner it is settled the sooner will trade, finance and industry tend to become stabilized. It is said that the allied financiers who held a meeting in Paris preliminary to the Cannes conference recommended that an international currency be adopted for all central and eastern Europe to take the place of marks, crowns, rubles and other units, their new gold value to bear the relation of 100 to the American dollar.

Establishment of new redemption values will mean new par values for at least half a dozen European monetary units. Those holders of the currencies affected who are losers will have to bear this partial repudiation, the holders who gain will do the grinning. But introducing this reform will not keep the currencies stabilized at the new reduced par values. The countries concerned must keep their budgets balanced and secure an equilibrium between exports and imports so that national debits and credits balance each other. "No international currency, no attempt to stabilize the value of gold, will be a substitute for that simple, if difficult and often painful, duty of paying our way," said Lord Cullen, of the British delegation, at the International Financial Conference, and to these words he added, as the only remedy for the exchange situation, "hard work and economy," which constitute Lord Chalmers' prescription for getting public finance back on a solid foundation.

Sound currency at new or old values and a sound economic situation in Europe involve the re-establishment of the gold standard in the principal European countries, that is, gold and paper must be interchangeable.

If the gold standard needed to be vindicated, this war and the post-war period have together provided the vindication. Yet in the face of this, the year 1922 opened on Ford's scheme of "flivver dollars," approved by Thomas Edison, to finance a part of the Muscle Shoals project, and another fiat money revival, this by Senator Ladd and his lone group crying in the wilderness of North Dakota for "honest money." As if two such demands that gold be dethroned as the sound money king were not enough, there was the spectacle of a learned economist chasing to the rainbow's end in Germany for the pot of gold—synthetic gold, which is to end gold as a monetary standard and strike America prostrate on a heap of metal that was worth $3,656,989,000 on January 1, 1922.

With this accumulation of gold the United States has broken the world's gold records. It is by far the greatest sum of gold possessed to-day by any one country, indeed the greatest mass of the metal ever accumulated by a nation in the history of the world. Representing almost a half of the world's monetary gold, it has come to us chiefly from Europe during the past seven years, enlarging our supply of monetary gold, which before the war was $1,900,000,000. The increase in the country's gold since 1912 is shown in the following table:

TABLE 8

GROWTH OF THE UNITED STATES' GOLD POWER

Year	Imports of gold (*a*)	Exports of gold (*a*)	Net gold in Treasury (*a*)	Stock of monetary gold in U. S. (*b*)	Per cent of 1913
1913.......	$69,194,025	$77,762,622	$258,363,327	$1,924,000,000	100
1914.......	66,538,659	112,038,529	252,962,971	1,816,000,000	94
1915.......	171,568,755	146,224,148	247,746,370	2,312,000,000	120
1916.......	494,009,301	90,249,548	238,093,644	2,865,000,000	149
1917.......	977,176,026	291,921,225	214,941,127	3,040,000,000	158
1918.......	124,413,483	190,852,224	248,241,288	3,081,000,000	160
1919.......	62,363,733	116,575,535	364,575,414	2,788,000,000	145
1920.......	150,540,200	466,592,606	402,960,726	2,785,000,000	148
1921.......	644,480,218	133,537,902	415,994,196	3,657,000,000	188

(*a*) At the end of each fiscal year, June 30th.
(*b*) At the end of the year.

Most of the gold acquired by this country since 1914 represents the payment of private debts contracted during the war and since. The settlement of many such obligations last year resulted in an unprecedented gold movement, the greatest the world has ever seen, millions upon millions of gold flowing into this country until the record-breaking sum of $691,267,448 for 1921 was reached on the last day of the year. During the same twelve months the United States exported $23,680,000, the smallest amount shipped from the country in any year since 1898.

The imports and exports by months for 1921, along with our other imports and exports of gold since the war, appear in the following table:

TABLE 9

UNITED STATES' POST-WAR IMPORTS AND EXPORTS OF GOLD

Month	1919	1920	1921
Imports			
January	$2,113,217	$12,017,551	$33,633,967
February	3,944,839	4,473,360	42,626,913
March	10,481,197	16,985,222	87,271,775
April	6,691,795	48,522,212	80,662,202
May	1,079,525	15,687,859	58,171,386
June	26,134,460	26,764,983	43,576,476
July	1,846,495	19,817,758	64,247,479
August	2,490,489	15,377,794	84,901,554
September	1,471,628	39,110,008	66,085,253
October	4,969,595	116,762,001	47,106,839
November	2,396,770	56,889,037	51,298,626
December	12,914,036	38,193,669	31,684,978
Total	$76,534,046	$417,068,273	$691,267,448
Excess of imports	....	$94,977,065	$667,587,405
Exports			
January	$3,396,098	$47,816,873	$2,724,980
February	3,110,153	42,873,376	1,036,005
March	3,803,229	47,049,586	709,668
April	1,770,057	44,622,477	383,787
May	1,956,135	7,561,583	1,062,521
June	82,972,840	5,319,875	773,603
July	54,673,227	21,872,783	3,734,929
August	45,189,318	24,986,182	671,652
September	29,050,466	17,229,090	2,448,741
October	44,148,990	25,931,239	7,576,472
November	51,857,796	19,869,757	607,437
December	46,256,939	17,058,287	1,950,248
Total	$368,185,248	$322,091,208	$23,680,043
Excess of exports	$291,651,202	....	....

If this sensational gold movement were allowed to continue, with governments and individuals abroad paying their debts to the United States in gold and with Americans refusing to take up foreign investments, this country would in time be burdened with a monopoly of the world's gold and be faced with the possibility of a universal abandonment of the gold standard. However, it is not conceivable that the debtor nations will in the future send us any such extraordinary quantities of gold as within the last few years or that the United States will permit them to continue gold shipments which disorganize our economic institutions as well as their own.

It is true that gold helps the dollar to reign supreme throughout the world and provides the nation's business with security, but while our supply of gold has been increasing our foreign trade has been diminishing. The inflow of the precious yellow metal has been a factor in preventing the outflow of commodities, and with idle gold we have idle workers. The person who expresses only satisfaction over our gold billions forgets that all the gold in the world cannot create a demand for commodities and services, that money does not create the capital with which business is carried on, that gold and the paper which represent it are simply a convenience of exchange used in business transactions and in the creation of capital.

A portion of our new gold reserves constitutes dead assets, and it will remain so until the world's economic situation improves sufficiently for us to invest abroad this excess, which is now piled up accumulating storage charges. Economists and bankers in general consider that our surplus gold will serve the country best if devoted to helping restore Europe to a sound economic state. Yet if loaned for rehabilitation of European monetary systems and industries, it will have to be invested not by the government and the banks which hold it but by the owners, who constitute the investing public.

Following consideration of the fact that the country is overstocked with gold beyond its currency needs and that the surplus earns no interest and serves no useful purpose, the United States Section of the Inter-American High Commission, of which Herbert Hoover, Secretary of Commerce, is chairman, has made this statement: "The United States feels it to be to its own interest that this gold should be utilized in foreign channels, and also that it be redistributed. From an economic point of view the method of utilization is by the investment of capital abroad. The method of redistribution should be through loans for reproductive enterprise and by specific gold loans to countries which are in a position to undertake the reorganization of their currencies on a gold basis."

Discussing our gold reserves and our trade W. P. G. Harding, governor of the Federal

TRIES

		1921	
	Notes	Gold	Notes
Bell	0,099,000,000	$1,000,000	$19,100,000,000
		1,000,000	4,500,000,000
	909,000,000	52,000,000	1,180,000,000
	476,000,000	7,000,000	615,000,000
	2,090,000,000	280,000,000	2,260,000,000
	205,000,000	8,000,000	272,000,000
	7,286,000,000	690,000,000	7,160,000,000
	7,561,000,000	260,000,000	24,300,000,000
	266,000,000	268,000,000	362,000,000
	3,628,000,000	161,000,000	4,110,000,000
	c	15,000,000	880,000,000
	1,620,000,000	5,000,000	36,414,000,000
	400,000,000	9,000,000	667,000,000
	721,000,000	81,000,000	2,384,000,000
	8,936,000,000	c	8,936,000,000
	2,132,000,000	764,000,000	2,115,000,000
Ne			
	130,000,000	61,000,000	129,000,000
	420,000,000	241,000,000	408,000,000
	115,000,000	39,000,000	101,000,000
	749,000,000	487,000,000	837,000,000
	194,000,000	75,000,000	166,000,000
	....	....	....
Co			
	513,000,000	453,000,000	578,000,000
	582,000,000	24,000,000	554,000,000b
	75,000,000	42,000,000	60,000,000
	10,000,000	25,000,000	16,000,000
	10,000,000	5,000,000i	10,000,000i
	532,000,000	540,000,000	511,000,000
	c	87,000,000	c
	25,000,000	30,000,000b	34,000,000b
	,051,000,000	3,657,000,000	3,637,000,000
	55,000,000	57,000,000	56,000,000
Bri			
	260,000,000	112,000,000b	277,000,000b
	534,000,000	190,000,000	447,000,000
	301,000,000	16,000,000	150,000,000
	36,000,000	40,000,000	39,000,000
	5,104,000,000	$8,184,000,000	$123,445,000,000
		6.7	

Hungarian Bank.

Reserve Board, has said: "There is a lot of talk about the $3,500,000,000 in gold which we have in this country. It is said that America is gradually getting a corner on the gold market, that the gold of the world will soon be held in this country. The situation is this: Banking to be secure rests upon security. America, once a debtor nation, now is a creditor nation. Entirely apart from the $11,000,000,000, which the Allies owe, America is a creditor nation on open account, and the gold we have received represents the scrappings of the European nations. We cannot continue to do business forever on the gold stock of other nations. They have got to increase their gold supply."

Europe's gold position as a result of the war and post-war movements of the metal is a long and involved story, which is best summarized in Table 10 (see page 62A), based on a tabulation prepared by the National City Bank of New York.

During the great gold movement of 1921, when the chief debtor nations of Europe sent us hundreds of millions, they did so without diminishing their gold reserves. England shipped us approximately $250,000,000 in 1921, yet the central gold reserves of the Bank of England remained almost stationary throughout the year at $625,000,000. France sent us about $200,000,000, and during the same period increased her gold reserve in the Bank of France from $692,000,000 to $700,000,000. Although Sweden exported about

$60,000,000 to us, her gold reserve lost only a few millions.

How did the debtor nations accomplish this seemingly impossible feat?

England received about $40,000,000 of gold from India and over $150,000,000 from South Africa. The chief source of the continent's gold was Russia. The countries receiving gold from the Bolshevists did not pass it directly on to us, since the United States government had taken the stand that it would not admit Russian gold because the Moscow government had no title to it. Having no such scruples, certain European governments put the Russian gold as it came to them into their treasuries and sent us an equivalent amount from their own reserves or reminted the czarist-soviet gold and shipped it to America as, for example, "made in Sweden."

While managing to preserve their gold reserves intact through 1921, Great Britain, France, Italy, Switzerland, Holland and the Scandinavian countries succeeded during the year in reducing their total of paper currency about $2,000,000,000 at its face value. But this decrease was offset by the large increases in Germany, Austria, Poland, Hungary and Rumania. Table 10 (see page 62A) shows that the face or par value of the outstanding paper of thirty-six principal countries of the world amounted toward the end of 1921 to $123,000,000,000 as against $82,000,000,000 in 1920, $55,000,000,000 in 1919, $40,000,000,000 in 1918 and $7,500,000,000 in 1914. Due to the great increase in paper last year, exceeding many times the billion dollar increase in the quantity of visible gold reserve for the same period, the ratio of total gold to total paper stood at the end of 1921 at a lower point than in any previous year—less than 7 per cent, as compared with 14.7 per cent in 1919, 18.4 per cent after the Armistice and 63.3 per cent at the beginning of the war.

And the greatest inflation crimes were committed by Europe, with her $115,000,000,000 and more of paper and less than $3,500,000,000 of gold.

VI

FOREIGN TRADE AND FOREIGN EXCHANGE

On a private business basis, without taking into account a dollar of the $11,000,000,000 and more of governmental debts, Europe owes the United States a sum exceeding her total gold reserves. This commercial debt is due largely to the balance of trade in our favor, and the credit side of trade with the countries of Europe will be ours for an indefinite period. The favorable balances for our world commerce from pre-war peace to post-war peace are as follows:

TABLE 11

RISE AND FALL IN ANNUAL FOREIGN TRADE BALANCE OF THE UNITED STATES BETWEEN 1912 AND 1921

Year	Exports	Imports	Excess of exports
1912	$2,399,216,000	$1,818,217,000	$580,999,000
1913	2,484,018,000	1,792,596,000	691,422,000
1914	2,113,625,000	1,798,277,000	324,348,000
1915	3,554,670,000	1,778,598,000	1,776,072,000
1916	5,482,641,000	2,391,635,000	3,091,006,000
1917	6,233,514,000	2,952,467,000	3,281,047,000
1918	6,149,085,000	3,031,213,000	3,117,872,000
1919	7,920,425,000	3,904,364,000	4,016,061,000
1920	8,228,016,000	5,278,481,000	2,949,535,000
1921	4,485,122,000	2,509,025,000	1,976,097,000

Discussing the trade outlook between this country and Europe, Secretary of Commerce Hoover said at the beginning of the year: "One great difficulty is the fact that Europe is not able to sell us any great quantity of goods and must, therefore, be carried to a large extent on credit. For example, during the year just closed we sold to Europe approximately $2,300,000,000 worth of goods and bought approximately $760,000,000 worth. Either Europe must find a way of increasing the sale of goods directly or indirectly to this country or she must continue to be carried to a large extent on American credit, if her purchases of American products are to remain up to the present standard."

Table 12 (see page 68) gives an analysis, by the Department of Commerce, of the United States' foreign trade for 1920 and 1921, classified by great groups according to the use or degree of manufacture.

The extraordinary growth and sharp decline in our exports and imports shown in Tables 11 and 12 is a matter that comes home to every American. In these figures lie several hard facts. The one uppermost in the American mind is the difference between prosperity and "bad times," represented by the $3,343,000,000 drop from 1920 to 1921 in our exports and by the $424,000,000 decline in exports for December, 1921, as compared with December, 1920. Although partly due to the fall in prices, the figures showing this break in exports should prove to all American business men, farmers and workers

TABLE 12

FOREIGN COMMERCE OF THE UNITED STATES FOR 1920 AND 1921

Groups	Twelve months ended December		Month of December	
	1920	1921	1920	1921
Exports (a)				
Crude materials for use in manufacturing	$1,870,767,054	$984,025,577	$149,888,465	$89,950,226
Foodstuffs, crude and food animals	917,990,828	692,166,371	91,822,680	28,737,288
Foodstuffs, partly or wholly manufactured	1,116,605,173	669,703,375	88,600,633	38,281,532
Manufactures for further use in manufacturing	958,496,878	399,879,573	70,748,183	35,145,285
Manufactures ready for consumption	3,204,857,759	1,625,401,862	306,130,432	98,369,846
Miscellaneous	11,763,129	7,846,972	1,340,865	812,823
Total domestic exports	$8,080,480,821	$4,379,023,730	$708,531,258	$291,297,000
Foreign merchandise exported	147,535,486	106,098,966	11,755,516	5,008,577
Total exports	$8,228,016,307	$4,485,122,696	$720,286,774	$296,305,577
Imports (a)				
Crude materials for use in manufacturing	$1,751,940,081	$853,084,747	$68,561,742	$94,015,951
Foodstuffs, crude, and food animals	577,626,948	303,967,645	42,629,351	32,706,687
Foodstuffs, partly or wholly manufactured	1,238,138,941	368,842,656	53,155,372	25,472,604
Manufactures for further use in manufacturing	802,456,339	344,031,934	44,630,844	32,082,556
Manufactures ready for consumption	876,725,060	618,927,152	55,264,284	51,171,200
Miscellaneous	31,594,121	20,171,269	1,815,850	1,924,340
Total imports	$5,278,481,490	$2,509,025,403	$266,057,443	$237,373,338
Excess of exports	$2,949,534,817	$1,976,097,293	$454,229,331	$58,932,239

(a) The lower values of imports and exports in 1921, as compared with 1920 and previous years, do not represent corresponding declines in volume of trade, but are to a great extent due to the fall in prices.

that it is an established fact that the United States, which increased its means of production, both industrial and agricultural, to abnormal proportions during the war, is coming back to a stage of production approaching a level nearer that of 1913 than the peak years of the war. The exporting producer has to face this hard fact and act accordingly, even though Europe and other parts of the world are still suffering from an underconsumption that matches our overproduction.

Reviewing our foreign trade for the fiscal year 1920-21 the director of the Bureau of Foreign Trade and Commerce, Julius Klein, said: "The decrease of more than $3,000,000,000 in the value of American foreign trade in the last fiscal year, as compared with the immediately preceding year, was clearly the effect of the world-wide trade depression appearing as an aftermath of the war. To a great extent lower prices, rather than diminished quantities, are responsible for the decrease. In fact, a compilation of exported commodities, reduced so far as possible to a weight basis, shows weight increases of 34 per cent for the groups of raw materials and of 37 per cent for foodstuffs in 1921 over 1920, with a decrease of four per cent for such partly or wholly manufactured articles as can be shown in weight. The final totals, including articles forming 69 per cent of the value of domestic exports in 1921, indicate a decrease in value of 19 per cent but an increase in weight of 23 per cent in the exports of 1920-21 as compared with the preceding year, 1919-20.

"Aside from the effect of lower prices, however, other causes contributed to the lower foreign trade totals. It is evident that the United States no longer enjoys the advantage, possessed during and after the war, of being practically the only country able to supply the larger needs of the world. The European countries are again raising crops on the former battlefields and no longer depend on this country for the greater part of their food supplies, as was the case during and immediately after the close of the war. Likewise, they have satisfied their most pressing needs for our raw materials, which were required in unprecedented quantities in 1919 and 1920 for the re-establishment of their manufacturing industries. In the world markets for manufactured goods, as well as raw and partly manufactured materials, we no longer have the field to ourselves, but must compete in prices and terms with other countries.

"The foreign exchange situation, with the dollar at a premium over the currencies of most other countries, had a depressing effect on our exports in the last year. With exchange rates of foreign currencies depreciated to a point which made our prices in dollars prohibitive, with declining imports, with the impossibility of settling in gold the balances already due us, with the difficulty of arranging further credit facilities, with cancellation of orders, with rejection of goods already shipped and the dishonoring of drafts, it was impossible for exports to continue at the rate of $500,000,000 to $600,000,000 per month, to which they had grown during and directly after the war. In fact, an unavoidable drop in our exports was predicted long before it took place. Beginning with the early months of 1921 the monthly totals began to decrease, and during the last four months of the fiscal year the average was $350,000,000 per month. Even at this rate, if continued, our exports would average 75 per cent above the pre-war totals."

But the figures of the Federal Reserve Board show that the volume of at least part of the export trade of the United States for 1921, calculated on a 1913 basis, was noticeably less than a 75 per cent average. A general idea of the actual trend in our foreign trade may be had from Table 13 (see page 72), which combines the Federal Reserve Board's index figures for the value and volume of selected exported and imported commodities, all on a 1913 basis, with index figures showing the annual value, in terms of the fluctuating dollar, of exports and imports from 1913 to 1921, along with the index numbers of the Bureau of Labor Statistics for wholesale prices of commodities in the United States.

The actual movements of our post-war foreign trade are traced month by month through the years 1919, 1920 and 1921 in Tables 14 and 15

TABLE 13

INDEX OF VALUE AND VOLUME OF THE UNITED STATES' FOREIGN TRADE FROM 1913 TO 1921

Year	Exports				Wholesale prices of commodities in U. S. (d)	Imports			
	Value of total exports (a)	Volume of selected exports (b)	Value of selected exports (b)	Wholesale prices of goods exported (c)		Value of total imports (a)	Volume of selected imports (b)	Value of selected imports (b)	Wholesale prices of goods imported (c)
1913	100	100	100	100	100	100	100	100	100
1914	85	...	...	...	100	100	...	...	...
1915	142	...	...	...	101	99	...	...	...
1916	219	...	...	...	124	133	...	...	...
1917	249	...	...	...	176	164	...	...	...
1918	246	...	...	...	196	168	...	...	...
1919	317	119	262	214	212	217	273	168	174
1920	329	108	283	227	243	293	357	169	191
1921	179	108	157	131	155	139	148	136	108

(a) Index based on Department of Commerce figures for annual total values.
(b) Monthly average values, 1913 = 100.
(c) Average prices in 1913 = 100.
(d) Index of the United States Bureau of Labor statistics, 315 quotations, average for the year, based on monthly averages.

(see pages 74 and 75), prepared by L. B. Mann, of the Division of Analysis and Research of the Federal Reserve Board. To throw light on how much of the increases in the value of American foreign trade has been due to increases in prices and how much reflected the increased volume of shipments and to determine the relative importance of changes of prices and changes in volume of shipments upon the value of American exports and imports, monthly exports of 29 commodities and monthly imports of 27 commodities were studied. The tables show these two major groups of commodities divided into three minor groups—raw materials, producers' goods and consumers' goods. For purposes of combination the volume of shipments of each commodity was translated into dollars by multiplying by its average wholesale price in the United States in 1913, the combined values thus obtained being converted into index numbers by making the average monthly value in 1913 equal to 100. The value of exports or imports of each commodity, as shown by the Department of Commerce figures, are represented in the tables by a comparable set of index numbers, the values of the commodities in each group having been added and their average monthly values in 1913 taken as a base.

Referring to the index numbers of Table 14 (page 74), Mr. Mann says: "The volume of merchandise exports of these selected commodities was slightly higher in January, 1919, than in the

TABLE 14

INDEX NUMBERS OF VALUE AND VOLUME OF EXPORTS DURING 1919, 1920 AND 1921, BASED ON AVERAGE MONTHLY FIGURES FOR 1913

Year and month	Raw materials (12 commodities)		Producers' goods (10 commodities)		Consumers' goods (7 commodities)		Total exports (29 commodities)	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume
1919								
January..	219.6	98.2	382.4	159.0	405.0	186.4	268.1	124.7
February.	147.8	68.3	322.9	125.9	405.7	175.2	211.0	99.0
March....	152.2	67.3	350.7	139.3	481.3	202.3	230.7	106.1
April.....	162.5	76.0	382.7	166.9	606.9	264.9	264.6	129.3
May......	167.0	78.9	311.0	137.7	435.0	192.9	229.5	111.4
June......	251.1	114.8	520.7	247.1	761.6	315.1	369.8	174.7
July......	185.2	84.0	310.7	147.9	415.8	172.7	239.2	110.9
August...	212.6	94.9	349.5	168.8	393.5	161.6	258.1	117.5
September	174.7	82.1	368.6	166.9	340.8	142.4	222.2	104.1
October...	186.4	82.1	349.7	148.1	358.3	150.6	232.4	104.4
November	312.0	116.2	320.7	135.7	369.0	153.5	323.6	126.9
December.	289.8	104.6	258.5	113.9	350.8	143.1	298.7	114.6
Average.	205.1	88.9	352.6	154.7	453.5	188.5	262.3	118.6
1920								
January..	314.7	108.7	322.1	134.9	304.3	116.2	313.4	112.9
February.	232.6	81.9	305.6	122.4	342.1	136.8	259.4	98.7
March....	304.0	106.0	357.4	148.8	477.5	186.0	341.2	128.9
April.....	228.7	79.5	359.3	147.5	444.3	169.1	280.2	107.1
May......	208.3	73.5	352.7	150.4	509.1	205.5	277.0	111.9
June......	185.1	64.9	315.3	126.4	393.8	151.5	235.3	91.1
July......	239.2	78.1	380.0	164.4	354.8	142.3	272.8	101.3
August...	235.3	78.7	334.9	135.4	253.7	94.7	247.1	87.7
September	257.6	82.5	300.4	119.7	259.7	94.0	261.6	88.6
October...	331.2	118.7	391.4	152.2	327.2	124.4	335.4	123.1
November	269.9	111.1	306.0	121.8	309.3	111.6	280.4	112.2
December.	260.7	122.4	458.5	186.0	311.8	123.3	287.0	128.4
Average.	255.6	92.2	348.6	142.5	357.3	138.0	282.6	107.7
1921								
January..	199.8	105.2	466.1	187.9	277.9	126.0	236.8	117.6
February.	158.9	91.0	325.6	141.0	219.3	116.4	184.2	101.6
March....	132.3	78.2	244.2	104.4	205.5	122.4	155.5	91.1
April.....	117.4	76.6	212.1	102.7	193.2	122.5	139.6	89.9
May......	147.4	97.7	157.2	81.8	169.9	112.8	152.5	100.0
June......	151.8	107.9	135.0	74.4	199.7	135.1	159.4	111.3
July......	153.6	111.6	118.6	68.3	195.7	131.8	158.7	112.5
August...	195.4	142.7	118.2	68.1	227.9	164.1	195.1	140.9
September	151.9	115.7	129.3	79.1	199.4	147.5	159.0	119.9
October...	183.3	121.7	120.7	83.5	153.3	119.2	172.4	117.6
November	137.3	95.1	126.6	83.7	146.3	108.6	138.1	97.3
Average.	153.8	103.1	183.2	95.8	194.1	126.1	156.7	107.9

Raw materials: Lumber, wheat, corn, oats, barley, leaf tobacco, cotton, refined copper, anthracite, bituminous coal, pig iron, crude oil.

Producers' goods: Sole leather, upper leather, steel rails, structural steel, steel plates, copper wire, acetate of lime, cottonseed oil, fuel oil, gasoline.

Consumers' goods: Wheat flour, cotton cloth, boots and shoes, hams and shoulders, lard, illuminaing oil, refined sugar.

TABLE 15

INDEX NUMBERS OF VALUE AND VOLUME OF IMPORTS DURING 1919, 1920 AND 1921, BASED ON AVERAGE MONTHLY FIGURES FOR 1913

Year and month	Raw materials (10 commodities)		Producers' goods (12 commodities)		Consumers' goods (5 commodities)		Total imports (27 commodities)	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume
1919								
January..	144.1	88.5	207.4	143.3	120.0	95.5	162.6	109.1
February.	165.6	94.9	258.9	180.2	121.6	97.9	191.3	125.6
March....	182.8	109.2	269.4	223.0	226.5	165.1	222.2	158.6
April.....	228.2	125.9	305.2	237.7	175.8	137.1	246.5	167.4
May......	282.0	161.4	353.0	242.8	225.2	178.1	297.3	193.0
June......	292.5	171.4	243.1	167.2	197.3	144.3	257.1	165.4
July......	311.8	171.7	281.6	209.1	320.0	204.4	302.4	190.3
August...	323.8	169.9	167.1	113.8	272.6	153.0	257.6	147.3
September	487.7	245.3	281.9	189.2	326.9	169.8	383.6	213.1
October...	390.3	196.8	285.9	201.9	254.3	137.0	327.5	188.8
November	426.2	196.1	282.5	213.9	265.0	143.5	344.6	193.8
December.	340.6	158.9	236.4	194.2	244.5	144.4	285.2	169.0
Average.	298.0	157.5	264.4	193.0	229.1	147.5	273.2	168.4
1920								
January..	452.2	206.1	395.6	244.8	272.3	152.9	398.7	211.1
February.	411.4	173.2	498.5	289.4	225.3	126.9	408.8	206.9
March....	431.9	192.7	548.1	338.8	302.1	173.0	450.2	241.2
April.....	375.2	173.9	482.2	262.5	337.6	193.7	407.1	208.6
May......	305.9	127.5	501.0	227.2	181.5	108.1	353.8	159.6
June......	352.6	157.3	789.6	257.2	252.4	149.2	492.6	191.4
July......	275.8	121.0	819.7	256.8	288.0	168.3	475.2	176.9
August...	259.8	122.3	750.1	256.3	248.5	160.0	435.4	176.0
September	192.8	101.3	424.4	165.3	170.1	120.5	272.6	127.1
October...	151.6	89.1	298.2	131.5	167.5	120.4	207.7	109.2
November	140.8	86.3	335.8	166.4	128.7	102.4	209.2	117.3
December.	119.5	79.4	262.6	133.0	95.1	91.6	166.9	100.4
Average.	289.1	135.8	508.8	227.4	224.4	166.7	356.5	168.8
1921								
January..	99.2	74.5	181.6	130.8	112.3	123.9	131.5	102.6
February.	144.1	118.2	201.7	143.5	117.6	135.5	160.1	130.0
March....	154.6	160.7	249.7	177.5	148.9	178.9	188.0	169.7
April.....	179.7	153.4	247.7	177.7	158.9	185.1	200.5	167.2
May......	137.1	98.7	172.2	150.2	140.3	162.1	150.4	127.3
June......	132.6	94.5	137.3	152.5	111.7	130.4	130.4	120.9
July......	135.3	99.3	115.7	126.5	112.3	121.4	124.0	112.6
August...	160.3	116.7	146.3	165.0	117.3	129.8	147.3	136.0
September	134.1	102.8	103.7	137.8	97.6	99.4	116.4	114.6
October...	120.5	96.2	117.5	173.5	115.0	116.5	118.4	126.9
November	147.2	115.1	131.8	199.5	149.8	149.2	142.1	150.6
Average.	137.0	113.6	156.7	162.8	129.2	141.4	148.4	135.6

Raw materials: Cotton, refined copper, hides and skins, lumber, silk, tin, flax seed, leaf tobacco, pulp wood, wool.

Producers' goods: Extract of quebracho, glycerine, nitrate of soda, manilla hemp, jute, burlap, sisal grass, sulphate of ammonia, india rubber, cane sugar, news print, wood pulp.

Consumers' goods: Cocoa, coffee, tea, bananas, olive oil.

average month of 1913, while the total value of such exports was over two and one-half times as great. This divergence between the relatives of volume and value of exported merchandise tended to become greater until September, 1920. From October, 1920, to September, 1921, however, the value and volume series showed a marked tendency to return to their 1913 relationship. Raw materials were first affected by this curtailment in relative values, but consumers' goods and producers' goods very soon followed the same course. In October, 1921, the value of raw materials once more showed a relative increase as compared with the volume, while consumers' goods and producers' goods registered a similar movement in November."

In regard to the imports indexed in Table 15 (page 75), the following points are made: "The volume of the selected group of imports in January, 1919, was only slightly larger than in the average month of 1913, while their value was over 50 per cent greater. This difference between relative volume and value of imports for the group as a whole tended to increase until July, 1920, but after that month declined rapidly, until the volume on a 1913 base in October, 1921, was greater than the value. This decline started first in the consumers' group in October, 1919, was registered by raw materials commencing with June, 1920, and by producers' goods commencing with August, 1920. It was finally entirely checked in November, 1921, but average prices of consumers' goods had already commenced to show a reverse movement in July, 1921.

"The value of both exports and imports increased more rapidly than their volume during 1919 and the first half of 1920. Since the summer of 1920, however, these values have shrunk very rapidly and in recent months values of selected imports are relatively lower than in 1913, while values of a selected group of exports are only about 40 per cent higher than they would have been at 1913 prices."

The excess in the volume of trade for the year 1921 over that for 1913 causes O. K. Davis, secretary of the Foreign Trade Council, to ask, in the New York *World:* "Why do we Americans so sedulously indulge in bewailment? Why persist in seeing the dark as well as the wrong side of these matters?

"In 1913 we were selling substantially all that we produced. The war came on, with its amazing expansion of our productive capacity and our curtailment of consumption. In every industry there is an element, roughly estimated, as the last 20 per cent, the sale of which is essential to the prosperity of the whole operation. This applies equally to the steel maker, the farmer and to any person or concern engaged in industry. Costs are met, still roughly speaking, with the 80 per cent, and profits accrue from the 20 per cent.

"A farmer produces 1,000 bushels of wheat and sells only 800 bushels. If he cannot sell the remaining 20 per cent he will have a hard year—his profits will be cut off entirely. And precisely the same is true of the industries.

"Before the war we had developed an export trade of about $1,000,000,000 in finished manufactures. Then came the war, with the enormous stimulation of production capacity and corresponding vital diversion of labor from agriculture to industry. We came out from the war with a capacity for production for export far beyond what our normal increase would have been. We accomplished in a jump, under the forced draught of the war, such an industrial development as would normally have been accomplished only over a period of two or three decades.

"At the same time, we curtailed consumption to a point where there was an enormous expansion of our customary increment of wealth. In other words, we saved more than we ordinarily would have saved, and this extraordinary saving under the inspired impetus of the war bulks so large in the aggregate that we came from the war very greatly a creditor nation instead of the substantial debtor nation we were when we entered the war. Thus, we achieved in financial status in a single jump the same thing we achieved in industrial status, excepting that it would have required twice as long to build up such a credit as it would have required to build up such an industrial development. As a people we will have to learn what the last 20 per cent of industrial production means to the economic health of the country."

America is learning, at great cost, that the margin of surplus production over domestic demand can break the domestic market and with it the domestic demand. Producers in the United States—industrial and agricultural leaders and workers alike—are beginning to realize that the country's production must be readjusted on a basis that provides for a surplus of production to meet the actual demand of foreign markets, a demand which will increase as Europe revives but which can never reach the high level of the war until another great war is waged abroad—after the debts of this war are settled—or the world's population has greatly increased.

European countries are still far from the point where they can increase their production and exports so that an equilibrium against our constantly increasing creditor position can be reached. Before the war we paid Europe $250,-000,000 every year for capital invested in this country; now her annual interest debt to us amounts to about $800,000,000. The remedy for the situation is the reciprocal increase of exports and of imports, and a field of foreign trade new to us—foreign investment. But first Europe must produce the goods. How she is failing to do so is represented in Table 16 (see page 78A).

With the problems of international trade, inflation, gold reserves and budgetary equilibrium, the problem of exchange is to be considered. The effect, not the cause of the world's economic troubles, exchange has fluctuated in the last few years in an amazing manner, rising or falling with every financial breeze or political sneeze. "Stabilize exchange" is the cry that has gone up throughout the world, as if stabilization were the cure-all for the world's post-war ills. But under the present economic and political conditions in Europe it would be just as impossible to stabilize exchange as to stabilize Lloyd George.

Since the removal of the artificial supports provided by the United States for allied exchange during the war, numerous artificial methods have been suggested for the stabilization of exchange, and a few tried, unsuccessfully, of course, since the credit position of Europe is to be strengthened and her buying power increased only in the natural way—hard work and strict economy, increased production and normal consumption. So great is the gap between the dollar and most European currencies to-day that not even all our gold could bridge it without Europe's reform. Stabilization of exchanges will never be brought about so long as Europe's economic and political instability continues.

The disordered state of European exchanges is shown in Table 17 (see page 81), which gives the high and low European exchange rates for the year 1921 and their averages for January, 1922, compared with parity.

RIES

	of imports xports, — of exports nports, +	1921 Imports	1921 Exports	1921 Excess of imports over exports, — Excess of exports over imports, +
Belliger				
Belg	0,000,000	7,728,937,000e	5,447,104,000e	—2,281,833,000e
Bulg	2,000,000	....	....	....
Finl	2,000,000	2,626,801,000f	1,993,772,000f	—633,029,000f
Fran	5,000,000a 9,000,000b	23,548,000,000	21,553,000,000	—1,995,000,000
Gern	9,000,000	....	....	—13,000,000,000g
Gree	6,000,000	....	....	....
Italy	8,000,000	6,523,650,000h	2,677,161,000h	—3,846,489,000h
Port	1,000,000	....	....	....
Unit	9,000,000	980,380,000	703,130,000	—277,250,000
Neutral				
Den	3,000,000	334,764,000i	844,778,000i	+510,014,000i
Holl	4,000,000	2,425,410,000j	1,239,871,000j	—1,185,539,000j
Spai	7,000,000	744,698,000k	356,677,000k	—388,021,000k
Swe	0,000,000	832,311,000l	681,376,000l	—150,935,000l
Swit	5,000,000	....	....	....
Countr				
Arg	9,000,000c	....	....	....
Bra	5,000,000	46,601,000m	36,256,000m	—10,345,000m
Jap	4,000,000	1,294,224,000n	975,920,000n	—318,304,000n
Uni	8,000,000	2,509,025,403	4,485,122,696	+1,976,097,293
British				
Aus	9,000,000	43,657,000o	33,225,000o	—10,432,000o
Car	0,000,000	674,961,000p	629,949,000p	—45,012,000p
Ind	2,000,000d	....	....	....
Nev	2,000,000	29,442,000q	31,181,000q	+1,739,000q
Sou	1,000,000	28,411,000r	11,758,000r	—16,653,000r

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[illegible]	[illegible]	[illegible]	[illegible] Countries of Europe:
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	Finland
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	Germany
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	Italy
[illegible]	[illegible]	[illegible]	Portugal
[illegible]	[illegible]	[illegible]	United Kingdom
			[illegible] Countries of Europe:
[illegible]	[illegible]	[illegible]	[illegible]
			[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
			British possessions:
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	New Zealand
[illegible]	[illegible]	[illegible]	South Africa

Including Alsace-Lorraine.
Excluding Alsace-Lorraine.
Estimated on nine months of 1920.
Including reexports.
Total for first eight months of 1921.
Total for first nine months of 1921. [illegible]
The period for 1921 [illegible]
in October, 1921, amounted to [illegible]
Total for first five months of 1921. [illegible]
Total for first eight months of 1921. [illegible]
Total for first nine months of 1921. [illegible]
Total for first six months.
Total for first eight months of 1921. [illegible]
Total for first eight months of 1921.
Total for first ten months of 1921. [illegible]
Total for first eleven months of 1921.
Total for first ten months of 1921. [illegible]
Total for first seven months of 1921. [illegible]
Total for first eight months of 1921. [illegible]

TABLE 17

DEPRECIATED VALUES OF EUROPEAN MONETARY UNITS IN TERMS OF THE AMERICAN DOLLAR

Country	Unit	Par value	1921 High	1921 Low	1922, January average	Per cent of par value
Belligerent Countries of Europe:						
Austria	Krone	$0.2026	$0.0031	$0.0003	$0.0003	.0016
Belgium	Franc	.1930	.0877	.0612	.0781	.4049
Bulgaria	Lev	.1930	.0135	.0065	.0071	.0368
Czecho-Slovakia	Krone	.2026	.0160	.0093	.0173	.0855
Finland	Mark	.1930	.0360	.0120	.0188	.0978
France	Franc	.1930	.0881	.0580	.0816	.4230
Germany	Mark	.2382	.0187	.0033	.0052	.0218
Greece	Drachma	.1930	.0800	.0410	.0436	.2261
Hungary	Krone	.2026	.0052	.0008	.0015	.0075
Italy	Lira	.1930	.0570	.0340	.0437	.2267
Jugo-Slavia	Krone	.2026	.0090	.0026	.0034	.0169
	Dinar	.1930	.0365	.0105	.0138	.0716
Poland	Mark	.2382	.0016	.0001	.0003	.0014
Portugal	Escudo	1.0805	.....	.....	.0766	.0709
Roumania	Leu	.1930	.0185	.0047	.0077	.0403
Russia	Ruble	.5146	.0000	.0000	.0000	.0000
United Kingdom	Pound	4.8665	4.2412	3.5325	4.2247	.8681
Neutral Countries of Europe:						
Denmark	Krone	.2680	.2095	.1505	.1997	.7453
Holland	Gulden	.4020	.3695	.3044	.3667	.9124
Norway	Krone	.2680	.1960	.1170	.1566	.5845
Spain	Peseta	.1930	.1530	.1245	.1497	.7760
Sweden	Krona	.2680	.2520	.2005	.2495	.9309
Switzerland	Franc	.1930	.1954	.1522	.1941	1.0060

The chaotic condition of international exchange and its harmful effect as one of the factors hindering the recovery of the world's commerce is summed up by the statement of the United States Section of the Inter-American High Commission: "For the most part the exchange situation merely reflects the economic situation. Exchange has been likened to a barometer; the barometer indicates the weather, but it does not make the weather. The dislocations which still exist in the whole international economic structure and the derangements of the international price structure are mainly responsible for the disordered exchange situation. The exchange situation will improve as the world's economic recovery goes on, especially in Europe, and particularly as the existing distortions in the price structure disappear.

"Confusion in the existing exchange situation shows itself principally in two ways: First, in the relative premiums and discounts on the currencies of different countries, and, second, in the disastrous daily fluctuations of the currencies of some countries.

"The export trade of countries whose currencies are at a premium is at a serious disadvantage. The trade of the United States is suffering more from this derangement than any other country, because its currency is at a premium with respect to practically every other country. The other American republics are, however, suffering, if not in the same degree, nevertheless in much the same way as the United States wherever a similar relationship exists with regard to their respective currencies and to the currencies of the different states of Europe.

"It is to be expected that in the course of time price levels and wage levels will rise in countries with depreciated currency and will decline in countries with premium currencies until an economic equilibrium is once more attained. Meanwhile, however, while changes in the relative premium and discount on currencies are going on, the process is causing incalculable inconvenience and serious injury—economically, financially and socially—both to the premium and discount countries.

"The second phase of the derangement, that is, the daily fluctuation of exchange, is destructive of sound and progressive business, because it drives every international transaction into the realm of speculation. The daily fluctuation in exchange in many instances absorbs more than the normal margins of profit, and thus either enlarges the margins or drives business to a cash basis instead of the accustomed credit relationships. In either case the result is a decrease in the entire commerce of the world.

"The fluctuations are less extensive between the American republics than they are between the American republics as a group and Europe, but it is impossible to dissociate inter-American

TABLE 18

INDEX NUMBERS OF WHOLESALE PRICES FROM 1913 TO 1922

	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922
Belligerent Countries of Europe:										
Bulgaria	100	103	137	268*a*	667*a*	830*a*	1,166*a*	2,086	2,006	2,150*cd*
Finland	100	...	...	...	...	...	981	1,384	1,487*b*	...
France	100	101	137	187	262	339	357	510	328	314*c*
Germany	100	...	...	...	...	...	...	1,479	1,914	3,700*cd*
Italy	100	95	133	202	299	409	364	624	578	600*c*
United Kingdom	100	101	126	159	206	226	242	291	188	188*c*
Neutral Countries of Europe:										
Denmark	...	100*f*	138	164	228	293	294	382	260	177*e*
Holland	100	105	145	222	286	392	297	282	181	165*cd*
Norway	100*j*	115	159	233	341	345	322	377	300	270*cd*
Sweden	100*h*	116	145	185	244	339	330	347	211	170*c*
Switzerland (*i*)	...	100	...	...	...	...	...	...	195	171*e*
Countries outside Europe:										
Japan	100	96	97	117	147	192	236	259	200	205*c*
United States	100	100	101	124	176	196	212	243	155	177*c*
British possessions:										
Australia	...	100*j*	141	132	155	170	180	218	167	150*cd*
Canada	100*k*	101	110	135	177	206	217	246	182	170*cd*
Egypt	100*l*	100	102	124	168	207	225	299	180	168*c*
India	...	100	...	...	...	...	...	204	180	180*cd*
New Zealand	100*m*	104	123	134	151	175	178	212	200*c*	195*cd*
South Africa	...	100	117	135	154	168	181	245	205*c*	...

(*a*) December figure.
(*b*) June figure.
(*c*) January figure.
(*d*) Unofficial figure.
(*e*) February figure.
(*f*) July 1, 1912, to June 30, 1914 = 100.
(*g*) December 31, 1913, to June 30, 1914 = 100.
(*h*) July 1, 1913, to June 30, 1914 = 100.
(*i*) Prices as of first of month.
(*j*) July, 1914 = 100.
(*k*) Middle of 1914 = 100.
(*l*) January 1, 1913, to July 31, 1914 = 100.
(*m*) Average annual expenditure, 1913 = 100.

exchange relations from the European relation."

The need of every country to-day is not only stable exchange but also a stable price level. Stable prices are possible only when there is neither inflation nor deflation. How to secure this needed stability awaits a practical solution. The plan of stabilizing prices by stabilizing the value of gold met with little support at the International Financial Conference. Money, whether specie or paper, has been varying in value throughout the centuries, yet its movements during the war and post-war periods have kept its holders more than ever on the anxious seat because of the instability of its purchasing power through fluctuations of the dollar, pound, franc and other units in foreign exchange, through variations in the premium of gold in paper money countries, through upward and downward movements in price index numbers. The result has been that during the last eight years every man's money has changed its value more rapidly and more irregularly than ever before in this business generation, whether resting quietly in his pocket or deposited in a bank or invested in securities, without his being able to lift a hand to help or hinder. This instability is indicated in the index numbers of Table 18 (see page 84).

The instability of the purchasing power of the dollar during the War of 1812, the Civil War and the World War, and the years immediately following, is shown in this tabulation of index numbers for the prices of food, the figures calculated from the average prices of foodstuffs for five years before each of the three wars:

TABLE 19

INDEX NUMBERS OF FOOD PRICES IN THE UNITED STATES DURING THREE WAR AND POST-WAR PERIODS

War of 1812		Civil War		World War	
1810.......	165	1860.......	93	1913.......	102
1811.......	160	1861.......	93	1914.......	102
1812.......	162	1862.......	109	1915.......	102
1813.......	189	1863.......	137	1916.......	126
1814.......	235	1864.......	176	1917.......	178
1815.......	185	1865.......	200	1918.......	200
1816.......	157	1866.......	176	1919.......	219
1817.......	159	1867.......	159	1920.......	250
1819.......	137	1868.......	148	1921.......	150
1820.......	117	1869.......	142	1922.......	134*a*
1821.......	112	1870.......	131	1923.......	...

(*a*) Index number for January only.

VII

GERMAN REPARATIONS AND PREPARATIONS

In the first years of the war we heard from the Germans of the huge indemnities that her conquered enemies, also the United States because of alleged un-neutrality, would be compelled to pay when Germany dictated the treaty of peace. Since 1919 the Germans have been trying to convince the world that they are unable to pay reparations even when reduced to 138,000,000,000 gold marks, a figure less than the losses resulting from the German invasion of France.

The will to pay, the French say, comes before the capacity to pay, and the world sees that Germany has the ability to pay but not the inclination. The judgment of public opinion, based on justice, not on sentimentality, is that Germany must make restitution for the damage caused by her aggression, this restitution to be limited only by her capacity to pay without endangering her economic system. With almost constant conflict between France, insisting upon reparation payments according to schedule for her devastated regions, and Great Britain, as stubbornly demanding a revision that will help devastated British commerce to revive, Germany has taken full advantage of the antagonism between her former enemies in attempting to escape payment of a debt to which she has agreed.

Germany continues to lack good faith—from August, 1914, to the Armistice, from the Armistice till to-day, from to-day until when? Her artificial substitutes for honesty and reliability should deceive nobody. The national policy is based on deceit and dishonesty. The government has furnished the evidence. It has defaulted with respect to treaty obligations, notably disarmament, the trials of war criminals, and reparations, including the undervaluation of German exports, 26 per cent of whose value is due the Allies.

A dishonest debtor, Germany has deliberately brought herself to a point where the government is near bankruptcy—fraudulent bankruptcy. If bankruptcy comes, it will be financial, not economic, and it will be the result of the Allies' stupid failures to take the proper steps at the right time and of the German plan to escape reparation payments.

The shrewd manipulation of the mark within the past year has written a spectacular page in financial history, a page on which Germany is credited with the profits and her former enemies debited with most of the losses. To meet reparation payments and to line German pockets with gold, German bankers, speculators and manufacturers extended their dumping tactics to paper marks, skilfully and at first quietly dumping them in ever increasing quantities on the world's financial centers.

At the beginning of 1921 the mark stood at 73 to the dollar, in February at 61, in March at 63, in May at 62, in June at 69, in July at 76, in August at 84, in September at 104. On October 1, with the mark at 122, the rapid decline began. By the twentieth of the month it had reached 158, on November 1 it was at 181, on the third at 205, on the fourth at 240, on the fifth at 248 and on the eighth at 302. Then it went to 247, but it took another fall to 287 to the dollar on November 20. Then it speeded back to 187. But why continue the dizzy pursuit? The mark is a smashed Humpty Dumpty that all the kaiser's horses and all the kaiser's men can't put together again at the old par value of 23.82, or 4 to the dollar.

With the mark plunging to unprecedented depths and the units of other countries dislocated under the pressure, the Germans brazenly faced the world with more and more paper money. Using wood pulp and printing press, they played havoc in the foreign exchange markets and succeeded in getting the creditor nations to pay a part of the German war bill out of their own pockets.

Of the hundred and more billions of German paper marks, how many are held abroad? Foreigners own 20,000,000,000, according to the president of the Reichsbank—but the less credit given to a German banker or his word the better. Other estimates, more reliable and nearer the mark than the Herr President's, put the total sum that the Germans succeeded in selling abroad between 30,000,000,000 and 50,000,000,000 paper marks. Regarding American speculations in marks the *Saturday Evening Post* says: "Something like one hundred million American dollars vanished in the thin air of the Germany currency balloon. Competent authorities estimate that 20,000,000,000 paper marks are in the hands of American speculators." In addition to the billions of paper marks held by speculators abroad, it is figured that foreign investors have put into Germany since 1918 from 80,000,000,000 to 100,000,000,000 paper marks. Most of the speculators and investors bought at prices considerably higher than those which prevailed in the last months of 1921, consequently, a lot of dollars, pounds and other good money went to enrich the Germans for nothing more than printing.

Germany's inflation is a colossal North Sea bubble, with government and financiers playing an adroit game, chiefly at the present and future cost of the Allies and the German working classes. A part of this German game is repudiation, which is bound to come in some degree, and Germans only are, through the conversion of marks into commodities and stable moneys, more or less prepared for repudiation. The German government will wish to cancel the entire paper mark issue. This is the step that a certain American who advises investors how to invest, advises Germany to take, but the Allies cannot be ignored in this matter. Conversion to a unit with a low gold value has already been discussed in allied financial circles. The losses due to such partial repudiation can be and must be largely borne by Germany.

The German government has intentionally made itself poor while making German industries and a limited number of citizens rich. At the same time that the government has been enormously increasing public expenditure, it has taken no effective measures to balance its budget. Totally inadequate taxation has continued, and the paper mark has been depreciated in an amazing fashion, as may be seen from Table 20, on page 92.

"The fall in the value of the mark is due to reparations," cries the government, and "Reparations are the cause for the entire financial distress of the Reich," says the Minister of Finance, and their words are echoed by verbal and printed propaganda, which carefully ignores such important factors as mark speculation, government subsidies, colossal expansion in the treasury bill circulation and the absurdly low rates of taxation.

While the Reichsbank, once a great commercial banking institution, has been playing the printing press to the state, the government has continued

TABLE 20

INCREASES IN GERMAN CURRENCY AND DECREASES IN EXCHANGE VALUE OF THE MARK

Date	Paper marks	Value in cents
1912—July 25	1,004,260,000	23.80
1913—July 25	1,826,920,000	23.80
1914—May 30	2,013,860,000	23.80
1916—Nov. 6	7,246,260,000	5.83
1917—Nov. 6	10,103,740,000	.....*a*
Nov. 30	10,622,300,000	.....
1918—Nov. 1	16,959,260,000	.....
Dec. 31	22,188,000,000	.....
1919—May 24	27,286,000,000	.....
Dec. 31	35,698,000,000	2.08
1920—May 24	49,127,540,000	2.50
Dec. 31	68,805,000,000	1.35
1921—April 30	70,839,000,000	1.50
May 24 (*b*)	69,724,403,000	1.65
May 31	71,838,000,000	1.57
June 30	75,321,000,000	1.30
July 30	77,390,000,000	1.20
Aug. 30	80,072,000,000	1.15
Sept. 30	86,204,000,000	.82
Oct. 15	87,547,000,000	.66
Oct. 31	91,347,101,000	.55
Dec. 15	104,387,000,000	.56
Dec. 31	113,458,889,000	.53
1922—Jan. 14	112,403,362,000	.54

(*a*) No quotations during the period when the United States was at war with Germany.
(*b*) The purchase of foreign cash balances for reparations began the third week in May.

the war policy of low taxation, making possible large fortunes—the profits of Krupp's, Stinnes and the German General Electric Company are outstanding examples among a host of individual and corporate profiteers. Although the treaty provides that Germany's taxation must equal that of the Allies, her taxes do not live up to this provision. Taxation in defeated Germany is considerably less than in victorious France and England. Figuring on the basis of the budgets of 1921 and the purchasing power of the respective currencies abroad, the English taxpayer is paying about $60 to his government, the French citizen about $45 and the German about $15. And German tax-dodgers are to be numbered by the millions, from the ex-kaiser to the socialists. Germany's taxation schedules have been farcical, and the recent schemes of a forced loan of 1,000,000,000 gold marks and a voluntary internal loan offer inadequate remedies. A comparison of post-war taxes and the taxation schedules of 1913 shows that Great Britain has increased her taxes more than three times what they were the year before the war, France about twice and Germany practically not at all.

While holding down taxation as a part of the scheme to defeat the payment of reparations, German officials, from the highest to the lowest, have connived in the established practice of removing wealth from Germany to neutral countries in Europe, to South America and also to the United States. The result is that a considerable percentage of Germany's liquid assets have been transferred to hiding-places abroad, where they may escape future German tax assessments and the claims of the Reparation Commission. Of the money transferred abroad some has actually been smuggled out with the aid of minor officials, whereas a considerable part has been expatriated with governmental aid under the guise of commercial expansion. Various estimates have it that from 2,000,000,000 to 7,000,000,000 gold marks are in safe keeping in Holland, Spain, Switzerland

and Scandinavia. Dutch bankers believe that the German credits in Holland alone amount to more than $200,000,000.

Germany's budget deficit for 1921, according to the Minister of Finance, reached 161,500,000,000 paper marks, with expenditures, including the paper cost of reparations, totaling 240,000,000,000 marks. Her outstanding treasury bills in November, 1921, amounted to 212,548,000,000 marks, having risen from 166,329,000,000 at the beginning of the fiscal year. In January, 1922, her floating debt was 247,000,000,000 marks. Of this sum 132,000,000,000 marks represented government notes discounted by the Reichsbank—more than the total currency circulation, which was then about 112,500,000,000 marks. Yet at the time the total gold reserves of the Reichsbank, which is capitalized at only 300,000,000 marks, amounted to only 995,000,000 marks, less than 10 per cent of the paper marks outstanding. Its holdings of dollars and other foreign exchanges are thought to have amounted to 350,000,000 gold marks the first of the year. The revised reparation budget brought before the Reichstag in February, 1922, estimated 187,500,000,000 paper marks as necessary for expenditures, itemized as follows: general reparations, 135,000,000,000; expenses for armies of occupation, 6,200,000,000; inter-allied commissions, 1,800,000,000; territory claims outside reparations, 20,700,000,000; clearing house expenditures, 18,000,000,000; interior expenditures, resulting from the treaty, 5,600,000,000. The estimated sum of 16,500,000,000 marks from taxation is made available for reparation payments. The state deficit for 1922, without including the peace treaty liabilities, is put at 225,000,000,000 marks, on the basis of 60 paper marks to one gold mark. If sales of treasury bills in 1922 maintain the same proportion as in 1921 the new inflation will amount to 125,000,000,000 paper marks. If Germany is permitted to keep on at this rate, it will not be long before her floating debt exceeds 500,000,000,000 marks. In October, 1920, the German national debt was 418,000,000,000 marks, exclusive of reparations but including compensations to German citizens arising from the treaty of peace.

While Germany has been proclaiming to the world her inability to pay reparations, the government has systematically been squandering billions at home. Its unbalanced budget provided for extravagant expenditures on subsidies and other items. The government has been paying an important part of the cost of the German people's bread and coal and meeting with budget appropriations the deficits of the postal service and railroads. For 1921 the railroads showed a deficit of 18,700,000,000 marks, a loss said to be greater than the yield from the income tax. This, taken with the deficit of the preceding year, equals the whole of the book value of the German railroads. Another enormous item on last year's budget was

11,000,000,000 marks for the merchant marine.

So Germany's extravagant expenditures, her failure to collect adequate taxes and the inflation of her currency have combined to work against the payment of reparations, which the German government agreed to undertake.

The American view of this whole situation was summed up by Secretary Hoover in December, 1921, in reviewing economic conditions in Europe: "The most eminent and most dangerous of the unbalanced inflation situations is Germany. Her case depends upon the method and volume of reparation payments. As the United Sates does not participate either in its control or its receipts, we have no voice nor right to interfere. In any event this is peculiarly a European matter and must be adjusted by the parties at interest. It is earnestly to be hoped that the present negotiations upon reparations may succeed in finding a sound basis that will secure permanent economic and political stability to Germany and certainty of regular payment to the Allies. With this effected the way is open for constructive consideration of the other states. The American people have never been, and will not be, remiss in participation in these further measures, but our people cannot successfully enter until those who have control of the reparations have settled this major issue upon so sound an economic basis that we can look on the future of Europe with confidence."

Six weeks later followed the statement of the

United States Section of the Inter-American High Commission—it has been noted that the chairman is Mr. Hoover—containing the following on reparations: "The German government is not meeting its reparation obligations by taxation, while other countries are unable to mobilize enough taxable resources to cover their expenditures for reconstruction, for military forces and for other purposes. There can be no hope of stability in the world's exchange until, in the first place, German reparation payments have been put upon a basis not only securing a definite flow of economic strength into the just task of rehabilitating the devastated countries, but also calculated to be within the practical power of the German people to pay."

Despite the fair and sane attitude of America toward the subject of reparations, the publication of this statement was followed by harsh criticism in France. This, with the expression of French opinion in regard to the enactment of the refunding bill with its stipulated interest and maturity clauses, our stand on French submarines and capital ships and Senator McCormick's resolution asking the State Department to supply figures on the armament expenditures of our European debtors, makes a sum total of French criticism that has served to enlighten the American public on the irritated and irritating state of the French mind.

From the various allied countries come proposals for the settlement of the unsettled reparations question, and most of these proposed solutions insist on linking the $11,000,000,000 owed to our government by Europe with the reparation sums to be paid by Germany.

An unofficial French solution is that of Loucheur, a minister under Clemenceau and Briand and one of the wealthiest men in France, who is not above suspicion in his own country. He has declared through the French press, the New York *World* and the London *Daily Express*, and in an address at Lyons, that "all debts among the allied and associated powers must be cancelled and Germany's debt to the Allies reduced in proportion." He holds to the idea that "France, for example, could pay her debts to the United States and Great Britain by means of a third series of bonds, the so-called C bonds, to be issued by Germany to the Reparation Commission in accordance with the reparation system established last May, and that the United States and Great Britain would forthwith throw these obligations into the fire, thereby relieving Germany to that extent.

"In considering the reparational problem, the first essential is to find out what Germany can pay. If she cannot pay in full it becomes doubtful that we in turn can pay our debts to the Allies and our associates. And, if we could, would not the confusion become worse confounded than ever —America be worse off than before? The only sure way out of the present chaos is to wipe the slate clean of both Germany's indebtedness to us and ours to one another and to the United States, with the exception of the amount required to meet France's essential needs."

Then there is the Italian view of ex-Premier Nitti, representing special financial interests, who is said to be peculiarly favorable to the Germans. To restore Europe he would establish a reduced sum for reparations, involving cancellation of debts among the allied nations of Europe and the United States. Regarding the effect of his plan on this country, Signor Nitti says in his book, "Peaceless Europe": "The United States is running the risk of seeing the purchasing power of its best customers reduced and annihilated, which in the long run constitutes an infinitely greater damage than the renunciation of the sums due it. And industrial crisis and widespread unemployment are far more damaging than the cancellation of debts which are, to a large extent, uncollectable."

However, in view of objections on the part of the creditors to losing all the money due them, the Italian would have Germany pay a sum representing 20 per cent of the intergovernmental debts over and above the war indemnity imposed upon her. Estimating that these credits amount to about $20,000,000,000, Nitti would have Germany's payment of $4,000,000,000 divided among the Allies and the United States in proportion to the credits due them. His plan means that we would receive about $2,000,000,000 and Germany would pay a total sum of 60,000,000,000 francs. He figures out that Germany should pay only 20,000,000,000 francs more for reparations, payment to be made largely in coal and other materials.

To be considered in connection with reparations is John Maynard Keynes, who has played a prominent part in Germany's payments, or rather lack of payments—in the eyes of the Germans a great hero in the tragedy, from the French viewpoint a villain in the drama and, as others see it, the man who was both right and wrong in the great European post-war farce. Keynes performed a real service for the American people when he opened the Pandora steel box of the Peace Conference and allowed us to see our innocents abroad among the wolves of Europe. In his "Economic Consequences of the Peace" he also served the Germans, supplying them with finished propaganda recipes for paying reparations by paring them—the parings thick enough to leave only the core. He also made prophecies, some of which came true. "Many of the misfortunes which I predicted have not occurred," Keynes admits in his recent book, "A Revision of the Treaty."

Starting with the revised reparation figure, 138,000,000,000 gold marks, the English economist chops, hacks, halves and pares until he reduces Germany's debt to the Allies to 22,000,000,000 gold marks, that is, about $5,500,000,000. The New York *Tribune* suggests he should summarize his method in this fashion: "The method I apply in arriving at the reparation total is an extremely simple one. It is what may be called the method of continuous halving. When expert investigation showed that Germany had done injury to the extent of forty billions I said that she should pay twenty billions. Later, when it was agreed she could mobilize this sum, I again cut this total in two and said ten billions was the proper figure. This now being approximately the settlement, I urge five billions—or, to be exact, $5,500,000,000."

Keynes summarizes his new proposals as follows: "First, Great Britain, and if possible, America, to cancel debts owing them from the Governments of Europe and to waive their claims to any share of German reparations. Second, Germany to pay 1,260,000,000 gold marks per annum for thirty years and to hold available a lump sum of 1,000,000,000 gold marks for assistance to Poland and Austria. Third, this annual payment to be assigned in shares—1,080,000,000 gold marks to France, 180,000,000 to Belgium."

Careful analysis, without sentiment or prejudice, shows that Germany can pay a much larger sum than Keynes' latest figure, and other countries are anxiously waiting for France and England to decide upon a united course of action and together compel Germany to institute financial and fiscal reforms. But the allied governments do little but argue. The British government keeps on pointing out that England's existence as a great nation demands the resumption of normal trade relations. This she should have, just as should all the great and small nations to which this same resumption means a return to normal. France wishes security from future German aggression, and she should have it, not only for her own sake, but so the whole continent of Europe may not be turned into an armed camp preparing for the next war. France also wishes payments by the Germans, as partial reparation for her devastated regions, and Germany will be able to pay a large sum if England and France stand together.

But Lloyd George, distrusted by the English business man and accused of representing other than British interests in the triangular game with France and Germany, has kept on playing politics with economics. He has helped delude a large part of the British public with the notion that the more reparations Germany has to pay the greater will be her competition with British industries—as if German competition will not be as keen against English and American products, reparations or no reparations. Most of the time he chooses to ignore that the stipulated reparations constitute a debt that is the first charge on Germany's entire wealth, but the Federation of British Industries takes a stand differing from that of the Premier from Wales, since the German government is not to be trusted in taxing German industries for meeting the reparation payments. This organization of British manufacturers has a plan whereby reparation payments would be transferred from the German government to German industry, the Allies to hold or sell to private persons mortgages, or first preference interest-bearing shares, on German industrial and commercial firms, banks, railroads, canals, shipping lines and so on.

Reparation puts the question as to which taxpayer shall pay. Every billion the Germans escape paying means just so much more in taxes for the French, Belgians, Italians and British. The French paid beginning in 1871 with billions of francs in gold and millions of tons of iron ore in Lorraine, laying the foundation of the great modern wealth of the German people. The peace terms of 1871 seemed overwhelming to the world of that time, and the Prussian statesmen intended that they should be. The French billions wiped the costs of the war from the budget of the new empire, established German currency on a gold basis and provided the means for the German government to carry out various domestic improvements. There was no plan or propaganda against the indemnity, for France was then doing the paying and Germany the receiving. France cannot now be expected to add to Germany's wealth of $110,000,000,000, if only because France, thanks in the main to the Germans, has the largest per capita debt in the world. The French debt increased during the war more than four times what it was in 1914, and it has more than doubled since the Armistice. In 1914, it was 34,000,000,000 francs; on December 31, 1918, it amounted to 151,000,000,000; on December 31, 1919, it stood at 240,000,000,000; on September 30, 1920, it was 285,000,000,000; by February 28, 1921, it had reached 302,000,000,000, and on September 30, 1921, it totaled 320,000,000,000 francs.

France—the government, the people, the press—has made great mistakes in policy since the Armistice, but the French know best of all the German people and their character and what may be expected of them.

While trying to escape paying reparations, preparations for the next war have been going on in Germany. These preparations began when the Armistice was signed; when and how they are going to end is a matter in which not France alone, but all the world, is interested. It is not that the mass of German people to-day wish another war, but powerful influences are at work to gain at some time in the future what Germany lost by not winning this war. The German war preparations are at present not material except in so far as they can be concealed in laboratories, secret recesses and the innermost government offices.

The chief factor of the present preparation is propaganda. The most dangerous form is the insidious propaganda in the German schools, preparing the coming generation for the state of mind that will again make the German people willing to wage war. But any other attitude can hardly be expected in a Germany that is unrepentant so far as the last war is concerned. To-day the great majority of Germans, no matter what their class or position, refuse to admit that Germany was in any way responsible for the war. They claim that the war was one of self-defense. To them justification of the violation of Belgian neutrality lies in their assertion that the French and English would have attacked them through Belgium if the German army had not crossed the border first. The Germans still justify the sinking of the Lusitania and every other act of frightfulness. Their spirit of hatred is not dead; the irresponsibility to moral obligations which characterized them during the war has increased since 1918.

Too many Germans wish the restoration of the Hohenzollerns. Too many strings in the republican government are being pulled by the financiers and industrialists, who through war profits and the currency depreciation have filled their pockets and foreign bank accounts with gold. Germany is wealthier to-day than at the end of the war, but the wealth is in the hands of a limited number. Her factories are intact and busy, her industries have expanded, her agriculture is flourishing. Wages are low, but large profits are being made and big dividends paid.

Yet reparations cannot be paid, the Germans cry, loudest of all the bankers, speculators and industrialists, who have the money with which to pay them. And German propaganda goes on to further the mistaken idea that payment of reparations will ruin the trade of the Allies and America, that German bankruptcy would ruin Europe and shake the rest of the world.

All of which goes to show that Germany's word to-day is worth no more than "the scrap of paper" of 1914 and even less than the paper mark of 1922.

VIII

EUROPEAN PLANS TO REVIVE WORLD TRADE

Greed and selfishness are the distinguishing characteristics of most of the schemes advanced abroad for financing Europe's commerce and her liabilities with American products and other assets of the United States, notably that gold we hear so much about but never see except in small samples at Christmas time. The supporters of these get-Europe-rich-quick schemes display a versatility that ranges from gold bricks and worthless paper money to the lowest forms of high finance and hopes of another war—a war in which Onkel Sam, fighting Japan, will be compelled to buy Europe's old munitions and rusting armaments with the gold that once was Europe's.

Of the suggestions so far advanced by European financiers for restoring the world to economic normality the most important is that of C. E. ter Meulen, a banker of Amsterdam. Mijnheer ter Meulen officially announced his ambitious plan of international credits, now generally known as the ter Meulen Plan, on October 2, 1920, at the International Financial Conference in Brussels. This conference adopted the plan, and shortly afterward it was endorsed by the Council of the League of Nations. Then the Finance Section of the League set to work to prepare the plan for world consumption, with special regard to feeding it to America.

Since its first presentation the ter Meulen Plan has met with varying degrees of approval from representatives of finance, industry and commerce throughout the world. In the United States the endorsement of the American Bankers' Association makes a prominent showing, this important organization of bankers having adopted the following resolution at their 1921 convention after hearing the ter Meulen Plan described in detail by Sir Drummond Fraser, acting for the Finance Section of the League of Nations:

"Believing that the restoration of normal conditions in the world and in our own country depends upon the reestablishment of a proper balance between nations, and that the cooperation therein of the United States is desirable and necessary for the reestablishment of normal conditions in American business life, we approve the principles of the plan for an international credit organization, known as the ter Meulen Plan. This plan offers a means of mobilizing the assets of the war-stricken countries under responsible international supervision and of issuing bonds based on these assets, thereby enabling them to secure long-term credits for the payment of essential imports. The Commerce and Marine Commission of the Association is hereby directed to make the necessary investigations for the purpose of recommending the best means of cooperation on the part of this Association in carrying out the principle of the ter Meulen Plan."

Among the business organizations that have accepted the ter Meulen Plan as the best solution of the problem confronting world trade, the World's Cotton Conference and the International Chamber of Commerce stand out conspicuously. This plan of international credits was incorporated in the consortium scheme adopted by the conference of allied financiers and industrial leaders for presentation to the Cannes conference as the most effective means for the economic restoration of Europe.

This proposed consortium, known as the International Corporation for Restoring European Trade, with $100,000,000 capital, would act as a clearing house for credits far in excess of its capitalization. Its first purpose would be to restore railroads and kindred agencies in countries where economic stagnation is partly due to the lack of transportation, notably Russia. Each nation participating in the formation of the corporation would establish an affiliated national corporation, this subsidiary organization to undertake no work other than that assigned it by the parent body, which would have its headquarters in London. The corporation would be created by a special act of the British Parliament, specifying its powers, duties, functions, responsibilities and liabilities, with special provisions for the exemption of foreign holdings from income tax. The central corporation would consist of representatives of the national corporations formed in England, France, Italy, Belgium, Japan and the United States, if this country chose to enter the organization. The supporters of this consortium scheme consider American participation as important eventually but by no means primarily essential to the establishment of the organization. Germany would be admitted to the corporation with the understanding that half of the profits accruing on the shares of the German national corporation would be turned over for reparation payments. The council governing all operations would consist of two representatives from England, two from France and, with the usual "if," two from the United States, and one from each of the other countries.

The assets of the countries aided by the international corporation would be pledged, in accordance with the ter Meulen Plan, as security for the loans involved in transactions where the consortium was not granted a concession for operation. Objections to the consortium are based on the ground that credits cannot be granted to more or less bankrupt countries unless secured by assets realizable abroad. The feeling is widely entertained in British commercial circles that the ter Meulen Plan provides the way out of such credit difficulties.

At the International Financial Conference Mijnheer ter Meulen, who is said to have spent two years in working out the details of his international credit plan, claimed that his method would enable private exporters in one country to sell to private importers in another without interfering with existing organs of trade and would restore international trading to its normal prosperity. He suggested a central commission of financial experts of recognized ability and repute, appointed by the League of Nations, to supervise the arrangements with those countries participating in the plan.

To see how the ter Meulen plan would operate, according to its originator, a specific example may be considered. Imagine that the United States, now the world's leading creditor nation, has joined in the ter Meulen Plan with Great Britain and the Irish Free State and with other war-stricken and unstricken countries of Europe. For example, France, whose importers have been in need of credits, has been informed by the International Commission, which is supervising the operations under the ter Meulen Plan, that the revenues it held ready to pledge for credits granted to importers of the country have been examined and the limit in gold value which could be furnished against them fixed at, for example, 1,000,000,000 francs. The French government would prepare a bond issue secured by the revenues approved by the International Commission and bearing interest fixed at, say, 6 per cent by mutual agreement between the French Ministry of Finance and the International Commission, these bonds to mature in five, ten and fifteen years. The date of maturity of these bonds has nothing to do with the period for which the credits are granted, since this phase of the transaction is arranged between the importer and exporter.

At this point enter Monsieur Franc Papier, of Paris, importer of foodstuffs and raw materials for manufacturing purposes, and the Spot Cash Co., of New York, Chicago and San Francisco, who sell coal, corn, pork, steel, cotton, copper and almost anything else you can think of. Orders from Europe for their products have long been an important part of their business, but since 1919 their export trade has suffered in an alarming and unprecedented fashion, with the direct result that workers in their offices and factories all over the country have been laid off until former clients abroad have real money with which to pay for the goods they need.

Since the war M. Franc Papier and a lot of sociétés anonymes, limited companies, unlimited individuals and Gesellschaften mit beschraenkter Haftung have been asking, demanding, imploring the Spot Cash Co. to sell them on credit or in francs, marks or what not, but the American company, which will try anything once, learned a few lessons in European credits and depreciated currency back in 1919 and 1920 that will last the president, directors and sales managers until the next war and after, no matter whether it is business with supposedly reputable firms in francs, marks, kronen, lira or any other paper money.

Under the ter Meulen Plan, M. Franc Papier, who wishes to purchase agricultural implements, wheat and cotton to the extent of $300,000, first secures the consent of the International Commission to import such commodities into France against the security of the so-called ter Meulen bonds issued by the French government. Since M. Franc Papier has a reputable business and the products he wishes to import are essentials—materials considered necessary for the economic welfare of his country—the International Commission issues a permit to M. Franc Papier for the purchase of $300,000 worth of wheat, cotton and agricultural implements in the United States.

M. Franc Papier then settles with the Spot Cash Co. the credit terms he is to be allowed—the period for which the credit is granted, the rate of interest and the collateral, which is the nominal value of the bonds of the French government put up by M. Franc Papier. Through the Ministry of Finance he borrows these ter Meulen bonds, of sufficient value to cover his transaction with the Spot Cash Co., and for them he puts up security satisfactory to his own government. The ter Meulen bonds used in this transaction will be payable both as to principal and interest in dollars, the currency of the exporter's country.

The pledged revenues of the French government, which back M. Franc Papier's purchase from the Spot Cash Co., are being managed by French officials, since in this case the International Commission considers the borrowing government sufficiently capable and trustworthy. But if it should so happen that France should fail to fulfil any of its obligations, the management of the pledged revenues will at once be transferred to the International Commission, which will turn over the proceeds from them to the United States and other countries whose exporters have extended credit facilities under the scheme, in proportion to the total of credits granted by the exporters of such countries. From these funds provision will be made for the payment of maturing coupons and for a sinking fund.

If M. Franc Papier should default, the bonds held as collateral for the transaction with the American exporters will be offered to the French government, against payment of any sums outstanding under the credit, plus accrued interest. Should the French government fail to redeem the credit within two weeks, the Spot Cash Co. will be at liberty to sell out the collateral. Such defaulted bonds the International Commission should be able to purchase from the sinking fund. In the ordinary course of the transaction the Spot

Cash Co., upon receiving from M. Franc Papier the ter Meulen bonds backing the $300,000 order, would transfer them for cash to a bank or to an export credit corporation of the kind formed under the Edge Act.

Here is where the American investor and his dollars come in. Investors, large and small, are not to be offered the ter Meulen bonds direct, but the cash necessary to enable the banks and corporations to finance the Spot Cash Company's $300,000 sale to M. Franc Papier and a multitude of similar transactions is first to come from the sale to investors of special foreign trade bonds secured by the ter Meulen bonds held by the bank or Edge Act corporation discounting them.

When M. Franc Papier's credit expires and he meets his obligations in full, the Spot Cash Co. or the financial institution holding the pledged bonds will return them to M. Franc Papier, who in turn will hand them back to the French government to obtain the release of his security. The French government will then be in a position to loan these bonds again for a new transaction.

"It should be clearly understood that this plan acts in no sense whatever as a monopoly," says Mijnheer ter Meulen. "The exporter cannot, however, obtain bonds as a pledge unless the credit has been sanctioned by the International Commission. As general conditions improve, there will be less inclination on the part of importers to apply to the International Commission.

The sooner this happens the better it will be. My plan of international credits is meant only to make possible transactions which otherwise could not have been brought about."

IX

THE FIRST INTERNATIONAL BANK—AN AMERICAN PLAN FOR RESTORING EUROPE

While Europe has been putting forward all sorts of schemes in the vain endeavor to stabilize exchange before stabilizing herself, Americans have been advancing ideas on the salvation of Europe. Many of our American suggestions have been expressed in the heat of after-dinner speeches or under the spot-light of newspaper columns offering the opportunity of publicity, without careful consideration or understanding of Europe's situation and the economic and political laws affecting it.

Those plans which are important enough and sufficiently developed to deserve attention all involve direct and close relations between the United States and the European nations, and they are based upon an international bank with a capitalization of ten figures—at least a billion dollars or more—except in one case. The plan of American origin that so far has received the most attention here and abroad is that of Frank A. Vanderlip, banker and financier, who went to Europe in 1921 for the purpose of studying the economic situation at first hand.

After visiting nearly every country Mr. Vanderlip formulated a tentative plan, the details of which are given in his book, "What Next in Europe?" "Whether this plan proves to be acceptable or not," says Mr. Vanderlip, "I have a good deal of confidence in stating that any proposal that is successful in averting the complete wrecks of currencies in a number of nations must be formulated in the light of the two principles I have laid down. First, that in the present situation there is nothing curative at work, that the disease is a progressive one and that there must be outside help. Second, that a currency must be created that cannot be depreciated by the unrestricted use of the government printing press."

Having absolute faith in the principles of our Federal reserve banking system, Mr. Vanderlip applied them in evolving his plan of a federal reserve bank for Europe, or as he terms it, the Gold Reserve Bank of the United States of Europe. This institution would be organized as a corporation, under the laws of no particular country, with an ultimate paid-in capital of $1,000,000,000 in gold. The stock would be distributed in shares of $100 each, open to any individual or organization able to pay for them in gold. Although it is presumed that the bulk of the initial subscriptions would come from the United States, all shares owned in America would be purchased eventually by Europeans. Stock bought by Americans would bear the designation

"A," and that by Europeans "B." These two classes would be issued under the same terms, with the exception that the "A," or American, stock would be subject to retirement by call at possibly $120.

The Gold Reserve Bank of the United States of Europe would be controlled by a board composed of nine trustees, five of them Americans and four Europeans, to hold their positions for life or until reaching a designated age limit. Men of the highest character and widest financial experience, they would have to give up all other financial connections and agree, in case of resignation, not to engage in any banking or financial business until after an interval of five years. New trustees, to be elected by the board, must be approved by a majority of the members of the Federal Reserve Board at Washington. The trustees would elect a governor general and a deputy governor general from among their number, the governor general to be a citizen of the United States. The provisions regarding American members and American control would likely lapse when 75 per cent of the "A" stock had been converted into "B" stock.

A Gold Reserve National Bank, with a board of nine governors, would be established in each European country wishing such a branch of the Gold Reserve Bank of the United States of Europe and meeting the provisions that it furnish free of all expense ground and buildings, adequate and fully equipped for the purposes and having ex-territorial rights of a character possessed by a foreign embassy, and that it give assurances that no legislation would be enacted to hamper the free circulation of the notes of the Gold Reserve Bank within the country and their exportation and importation, or the making of contracts payable in these notes, or against the opening of deposit accounts in these notes in other banks.

The Gold Reserve Bank of the United States of Europe would issue circulating dollar notes, redeemable under normal conditions on demand in gold, and it could make advances of these notes to the Gold Reserve National Banks against deposits of gold or of gold and endorsed commercial paper, a minimum of not less than 20 per cent of gold to be received against all circulating notes and kept as a reserve back of all outstanding notes.

In making loans and receiving deposits each Gold Reserve National Bank would deal, not with individuals, but with incorporated commercial banks. It would make loans only against collateral to an amount equal to perhaps 150 per cent of the loan, and the collateral would have to be short-term commercial paper arising out of legitimate commercial transactions and strictly of a kind known as self-liquidating paper, such as loans against produce during the period of its transport from the grower to the consumer, or against raw materials during the process of manufacture and until their sale as manufactured goods, or against merchandise, to be paid when the merchant sells the goods bought with the proceeds of the loan. No loans would be made against stocks, bonds, mortgage collaterals or government bonds.

The rates of discount fixed by the governors of the Gold Reserve National Banks would have to be approved by the trustees. Each Gold Reserve National Bank would pay a dividend of 8 per cent to the Gold Reserve Bank of the United States of Europe upon the stock of the branch held by the parent institution. One part of the remaining earnings would be retained by the Gold National Bank as surplus, another would be paid in lieu of taxes to the governments of the countries in which the banks are located, and still another part would be used as extra dividends payable to the Gold Reserve Bank of the United States of Europe. The stockholders of the Gold Reserve Bank should receive a regular dividend of 8 per cent, also extra dividends amounting in the aggregate to the total extra dividends received from the Gold Reserve National Banks. These branch banks would pay all the Gold Reserve Bank's expenses of administration, including the salaries of the trustees and the cost of printing and circulating its notes.

A second international bank succeeded in making its way into Congress, to rest in a pigeon-hole. This so-called Bank of Nations is the principal feature of a bill introduced by Senator Hitchcock, of Nebraska, who believes that international commerce can best be reestablished by creating a world banking and currency system. His Bank of Nations would provide credit upon which exporters and importers can do a normal business, would ease the debt burdens of European governments and would stabilize exchange.

Senator Hitchcock's bill calls for an international bank in the form of a corporation capitalized at $2,400,000,000. Of this sum the United States government, through the Secretary of the Treasury, would hold $1,300,000,000 and with it the controlling interest. Stock to the amount of $200,000,000 would be in the hands of banks and bankers, exporters and importers, and the remaining $900,000,000 of capital would be offered to those nations of the world willing to enter into treaties with the United States, the treaties to define their rights and obligations as stockholders in the international banking system. One-third of each stock subscription would be payable in gold and the other two-thirds in interest-bearing bonds of solvent governments, described as governments making arrangements with the United States to reduce armaments so as to become solvent. The directors would number twenty-four, one to each $100,000,000.

The Bank of Nations would have the power to issue about $3,000,000,000 in currency, to be known as the international dollar. This currency, in Senator Hitchcock's opinion, would displace gold as the medium of exchange between nations. He also believes that the bank would become the great international clearing house of the world for the purchase and sale of exchange, possessing the power to eliminate gambling in exchange and to stabilize the value of foreign currencies.

Another international bank plan put before Congress is that of Senator Owen, of Oklahoma, one of the authors of the Federal Reserve Act. In January, 1922, Senator Owen asked Congress to authorize, by a bill amending the Federal Reserve Act, the establishment of a Federal Reserve Foreign Bank to help restore stable economic conditions throughout the world. The bill proposed that the international bank should be owned by the Federal reserve system, its capital of $500,000,000 in gold to be supplied by the Federal reserve banks. According to Senator Owen, the withdrawal of this half billion dollars from the 35 per cent reserve of deposits belonging to members of the Federal reserve system would not impair their reserves, since the banks themselves cannot withdraw these deposits, and yet would enable the American Federal Reserve Foreign Bank to issue through its branches in London, Paris and Berlin $2,500,000,000 of notes of any denomination against sound short-term bankers' bills, insured by 100 per cent of commodities. This proposed banking institution and its currency would enable money of the Federal Reserve Banks to be used in making loans against the kind of bankers' bills which cannot be negotiated by the Federal reserve banks. In Senator Owen's opinion, the American Federal Reserve Foreign Bank would provide Europe with a stable medium of exchange, thereby helping to put European currencies on a gold basis and to restore European industry, and at the same time benefiting our foreign trade. Gold reserves for redemption purposes would be available in New York, London, Paris and Berlin. Loans of the proposed bank would bear 3 per cent interest, so that the undertaking might be profitable, and they would be repayable in gold.

Senator Owen, who went to Europe to study the situation, said in presenting his plan: "The outstanding factor that retards restoration of European industry and commerce is the lack of gold-secured currency. The United States is able to provide the means for supplying a currency secured by gold, redeemable in gold and secured at the same time by merchantable commodities that in themselves open and renew the ways of trade."

A fourth great international bank plan, supported by the American Exporters and Importers' Association, calls for a Federal Reserve Foreign Trade Bank to facilitate international commerce and to stabilize exchange. The Association asks Congress to authorize the establishment of such an organization, with a capital of $2,400,000,000, the government to subscribe 51 per cent of the stock, or $1,212,000,000, and the remainder to go to banks, manufacturers, exporters and importers. The plan provides that the bank's board shall consist of fifteen members—all native-born Americans—including the Secretary of the Treasury, the Secretary of Commerce, the Governor of the Federal Reserve Board and twelve members appointed by the President from bankers, manufacturers and merchants experienced in foreign trade.

This bank, as the fiscal agent of the United States government in foreign trade and finance, would be established as a part of the general Federal fiscal system, of which the component parts would be the Federal Reserve Board for domestic financial and commercial transactions, the Federal Farm Loan Board for long-time land mortgage loans to agricultural interests and the Federal Reserve Foreign Trade Bank for foreign financial and commercial relations.

The Federal Reserve Foreign Trade Bank, functioning through headquarters in New York and branches at home and abroad, would deal in foreign exchange, establish rates of discount and exchange and commissions, lend money to depositors, issue bank note or bank currency, open credits for the accounts of domestic and foreign banks and traders, facilitate exports from and imports to the United States. The bank would act for the United States government in all matters connected with the European government debts and would conduct transactions under the ter Meulen Plan.

The bill which the American Exporters and Importers' Association asks Congress to pass for the establishment of this foreign trade bank extension of the Federal reserve system, contains this important provision: "Every transaction directly or indirectly involving foreign exchange, foreign credits or foreign balances, whether covering a commercial transaction or not, in which any person or persons, firm or corporation being or having an office or representative in the United States of America is directly or indirectly concerned, must, to be valid, be cleared through the bank, for which clearance the bank shall make a nominal charge. . . . The Board of Directors shall from time to time publish a list of those who, having complied with the board's rules and regulations, are authorized to buy, sell, deal in and transfer foreign exchange, foreign credits and foreign balances."

The supporters of this Federal Reserve Foreign Trade Bank claim that their plan possesses peculiar advantages over any other proposed international bank in that it provides for the entire capital to be subscribed in the United States, the bank's capitalization to be based on the refunded European debt and "on $800,000,000 of the enormous excess stock of gold in this country now lying idle." Against this capital and self-liquidating commercial paper the bank would issue approximately $3,325,000,000 of currency.

The general situation as to financial relief through international banks, export credits and other means has been summarized by Secretary of Commerce Herbert Hoover in the following letter to Sir Drummond Fraser, with special reference to the ter Meulen Plan:

"Economic recovery of the states in eastern and southeastern Europe (and consequently a considerable fraction of our own and of world commerce) is dependent upon each state erecting (1) a balance in taxation and expenditure; (2) currency reorganization and stabilization; (3) wise control of their exports and imports; (4) credits for reproductive purposes.

"It is hopeless to expect that private capital will extend credits for exports to these states upon any systematic basis until the first three have been complied with. Furthermore, attempts to secure these three vital reforms by action through various governments foreign to them risks being wrecked on the rocks of conflicting political objectives of such governments.

"The ter Meulen Plan proposes to facilitate credits for exports by the ordinary processes of business free from political action, when these three primary reforms have been initiated. This should act as a great pressure to secure the reforms and if accomplished is at once nine-tenths of the battle for rehabilitation of credits and commerce with these states.

"I have the feeling, however, that something more is needed than export credits to these countries if the three primary reforms are to be accomplished, *i. e.*, some assistance must needs be found to these states in credit for purposes directly of currency reform. I have already suggested that some action might be taken by the great banks of issue of the principal countries looking to formulation of a plan to facilitate solution of this portion of the problem; thus again keeping away from political action in the economic and financial affairs of each of these states. Such a plan in no way replaces the ter Meulen Plan, as the two plans would supplement each other."

After outlining his plans for an international bank and for the investment in Europe of the billions owed us by her governments, Mr. Vanderlip says in "What Next in Europe?": "We can furnish Europe with much needed capital, but in doing that we need to exercise great caution. To loan governments money so long as they fail to regulate expenditures properly would be likely to do more harm than good. We need to consider with great care how effective any further government loans would be in improving the situation permanently. I think there is reason to view with much apprehension further increase of international debts, unless they are contracted under conditions which are reasonably certain to bring about fundamental improvement in the relations between European states.

"While I believe the situation of Europe is extremely grave, it certainly is not hopeless. There are inherent possibilities of building a new Europe which would be more prosperous and comfortable in every way than the old Europe has ever been. The prerequisite for that is a change of spirit, and I believe we can do a great deal to allay the suspicions, the hatreds and the selfishness of European people. We can help them see the necessity for unity, help them apprehend the terrible cost of selfishness. They must understand that the reconstruction of Europe is a comprehensive task. Only united effort, and a recognition that the welfare of individual nations can be achieved through general international good will, can accomplish it. We could largely aid in developing such a spirit."

X

WANTED: A WORLD ECONOMIC CONFERENCE IN WASHINGTON

The need of the United States—indeed, of every country, since the economic structure of all has been affected by the war—is a world economic conference, and this conference of the nations should be held in Washington.

Sentiment for calling such a conference in an attempt to solve the world's economic and financial problems has been growing among American business men and bankers, as it has become more and more evident that the Conference for the Limitation of Armament and the Genoa conference have their place in post-war history as stepping-stones to a greater gathering of the large and small nations. The whole world is in critical need of deeds, not words, on the part of a world group of representative industrial, financial, labor and business leaders, within whose power it lies to make a world economic conference in Washington the most effective agent since the Armistice for a safe and sane approach toward a normal economic existence.

Not that this new Washington conference would rewrite the treaties made in Paris and its environs, since it is doubtful if Europe will rewrite them except in blood, but the delegates should take all countries as they are in 1922 and initiate a plan of mutual cooperation in the world's economic rehabilitation, which will be the most important factor in general political stabilization.

Leadership in this great economic and financial conference devolves upon the United States as the wealthiest country and the chief creditor nation. Since 1918 America has held the balance of power, of world power, both political and economic, but this country has been afraid to use it, even for the good of the world. And for the first time in history the balance of power is in the hands of a country not actuated by a policy of subjection and exploitation of other peoples. "America," says H. G. Wells, "does not seem to understand the scope of its moral ascendancy or its moral advantage over Europe at the present time."

Among the reasons why this world economic conference should be held in Washington are this moral ascendancy and the desirability of removing the conference as far as possible from European political intrigue. Europe's international politicians, generally called statesmen, have brought about the present situation by playing politics with economics, and the fewer of them in attendance at any economic conference the better. Too much power, too much trust, has been the share of the post-war premiers. With a few minor exceptions, they have all been tarred with the same stick—from Benes, clever but unscrupulous, to Lloyd George, whose adroit personal politics coupled with a wait-and-see-saw policy have cost the British Empire and the world dearly.

Another reason for the choice of Washington as the meeting place of this world economic conference is the need of educating the American public in certain features of international finance and commerce. As a people we have no tradition and little experience in foreign business matters. What our government is doing in these post-war years in regard to foreign relations will affect generations of Americans for centuries, but in the matter of international relations, whether political or economic, most Americans cannot see beyond themselves, unless they are parents or grandparents, and even then they are shortsighted as compared with the English, the French, the Japanese. The successful conclusion of any world economic conference means the investment of American dollars in Europe—investments which will constitute just so much national life insurance for us when the rest of the world turns to Asia, Africa, Australia, South America for the bulk of its raw materials. Holding the conference in Washington would provide the American people with a much needed lesson in world economic problems and the part that it is best for this country to take in their solution. But mav the rules of the conference preserve us from propaganda about cancellation of debts, the further paring of reparations, Russia's return to the society of nations, and the *this* and the *that* of national rivalries, needs, grievances!

That the Harding Administration is not adverse to participation in a purely economic and financial conference after Europe has initiated a definite plan to set her house in order was indicated in Secretary Hughes' note declining the invitation to the Genoa conference. The final paragraph reads: "While this government does not believe that it should participate in the proposed conference, it sincerely hopes that progress may be made in preparing the way for the eventual discussion and settlement of the fundamental economic and financial questions relating to European recuperation, which press for solution."

Among the first advocates in urging a world economic conference were A. C. Ratshesky, president of the United States Trust Company of Boston; S. Stanwood Menken, president of the National Security League; Samuel Gompers, president of the American Federation of Labor; Senator France, of Maryland, partly right for once, and Marshal Foch, who, while in this country, pointed out that the peace is to be won only by unity of economic action as the war was won by a unified military command.

At the beginning of the year Mr. Ratshesky pointed out in an article in the New York *Times* that the urgency of the existing business situation justified and necessitated the calling of an international conference, preferably by the United States. In his opinion the conference ought to avoid all undue interference with private business, paternalistic measures and radical proposals in its effort to bring business in the conferring countries back to a normal and healthy state. He suggested the open discussion at the conference of all legitimate methods of promoting economic harmony and good-fellowship between nations.

Regarding the results of such a conference Mr. Ratshesky holds this view: "If composed of picked men of a practical character and of optimistic nature, I am convinced that it would result in untold good. If to this troubled and confused period it brought nothing more than the exchange of information, no more than a feeling of international fellowship, no more than a relaxation of the present tension, and freedom from a paralyzing feeling of depression, it would have served a great purpose. If it actually eradicated fundamental defects and solved basic problems, the gains would be beyond measure."

In outlining his plan for American participation in a world economic conference the president of the National Security League suggested a preliminary conference on the part of an American commission of fifty-three members, appointed by the President, "to consider and define America's position on world economic problems, to advise on the proper course as to Europe's debts to the United States, and to report on our own tariff and tax problems, including matters particularly affecting labor and agriculture." In Mr. Menken's opinion, the results of this preliminary national conference would be popular education as to the effect of world economic problems upon the United States; concrete proposals for the solution of these problems; scientific consideration, free from politics, of tax, tariff and financial questions; a good example to be followed by other countries prior to their participation in a world conference, and a definite course of action for the American delegates at an international congress.

That a world economic conference will be held seems a foregone conclusion, and the Genoa gathering may well be Europe's preliminary step to such a conference at Washington. By way of Genoa it is possible for Europe again to discover America, but coming this time with land disarmament a partly accomplished fact, with reparation payments fixed at a figure within Germany's capacity to pay, with the Near East tangle more or less unknotted, with individual programs of government fiscal and monetary reforms, and with definite plans for the payment of inter-governmental debts—to prove to America that Europe, actuated by a policy of political and economic unity, is not beyond self-help in the matter of her own salvation. With such a program Europe may then recognize that her rehabilitation lies more in European deeds than in American dollars.

Surely the governments and peoples on the other side of the Atlantic have learned through the disarmament conference and our abstention from Cannes and Genoa that there exist Americans who do understand Europe and her perverted politics and eccentric economics, that not all Americans can be bamboozled into false European ideas or bamboozled out of a knowledge of things as they are.

A bold policy on the part of the United States will be needed at the world economic conference, and if it is held in Washington our government may the more easily select the members of our delegation from among the most competent and independent leaders in America's economic life. Eliminating party politics in the composition of the delegation and in its support by the country—including the Senate—Congress should authorize the President to appoint members of his cabinet, congressional leaders, practical economists and representatives of American business, banking, industries, agriculture and labor—all experienced experts and specialists in the various ramifications of national and international economics and finance.

Among the most important international problems with which the United States must concern itself at this world conference are the financial and economic difficulties of three great empires shattered in greater or less degree by the war and by post-war developments—Britain, Germany and Russia.

Great Britain, owing and owed huge sums, sees her commerce and industries devastated as a result of the disintegration of world business. The prosperity of Great Britain and the British dominions depends largely on the upbuilding of the world's markets, as does America's prosperity, and it is natural that Great Britain and the United States should stand together on most matters at any economic conference. The two countries cannot afford to let Europe run its present course to complete bankruptcy, and as the two chief creditor nations theirs is the right and the duty to insist on certain lines of economic and financial conduct that will be of advantage not only to themselves but to the world in general. Common interests and mutual ideals should unite the American and British peoples—indeed, Great Britain and the United States must hold together if the principles already evolved in our civilization are to continue as a basis for further development in the future.

Regarding German participation in a world economic conference, Germany has not yet shown herself fit—and an early change of attitude is not probable—to have an equal voice in matters affecting individual nations and the world as a whole. A dishonest bankrupt never occupies a seat of honor at the council table of his creditors.

It is too much to expect of Germany that she should be seen and not heard, but at any conference in which the United States takes part there should be a definite understanding that the German delegation is to speak only when spoken to. Germany, preparing to rearm, while disarming, has failed to show her good faith in helping to shoulder the economic consequences of the war—war of her own making and of her own methods of destructiveness. Germany's economic and financial restoration is needed as an important unit in world rehabilitation, but it must come through honest Teuton efforts.

Russia's presence at the world conference depends, at least so far as the United States is concerned, on a complete change in methods of government. But other ideas prevail in western and central Europe, where politicians and capitalists have engaged in one intrigue after another for the selfish exploitation of Russia's resources and peoples. Speaking for himself and other conspirators, Lloyd George said, "We do not demand certificates of character from our customers," while demanding that the Soviet government reimburse its creditors and guarantee its moral conduct, although fully aware of the character of the Bolshevist government—a government whose leaders have proudly proclaimed that they do not intend to observe any agreements they make with foreign powers, a government which even in 1922 was continuing its existence because of murder and imprisonment and despite disorganization and inefficiency, resulting in economic chaos, disease, starvation, death.

If it is necessary for Europe to save Russia so Russia may save Europe, mutual salvation does not lie in an allied consortium for the exploitation of the country nor in Germany's grabbing of Russian industries and resources with the ultimate aim of political as well as economic domination. The open door in Russia is as vital to world peace as the open door in China.

The United States government's attitude on Russia was made known in the Hughes note on the Genoa conference: "It may be added, with respect to Russia, that this government, anxious to do all in its power to promote the welfare of the Russian people, views with the most eager and friendly interest every step taken toward the restoration of economic conditions which will permit Russia to regain her productive power, but these conditions, in the view of this government, cannot be secured until adequate action is taken on the part of those chiefly responsible for Russia's present economic disorder.

"It is also the view of this government—and it trusts that this view is shared by the governments who have called the conference—that, while awaiting the establishment of the essential bases of productivity in Russia, to which reference was made in the public declaration of this government on March 25, 1921, and without which this government believes all consideration of economic revival to be futile, nothing should be done looking to the obtaining of economic advantages in Russia which would impair the just opportunities of others, but that the resources of the Russian people should be free from such exploitation and that fair and equal economic opportunity in their interest, as well as in the interest of all powers, should be preserved.''

The bases referred to by the Secretary of State are the safety of life, the recognition by firm guarantees of private property, the sanctity of contract and the rights of free labor. Although there is no early solution for Europe's trouble in going into Russia, since Russia must for years be a liability instead of an asset, the Lloyd George government went on record as willing under a thin disguise to resume trade relations with the Soviet, and France has kept insisting that the Bolshevists recognize the legality of Russia's debt of 22,000,000,000 francs to the French government and people. But Bolshevist recognition or not, Russia's war and pre-war obligations are legal debts due the creditors, France, Belgium, England and the United States.

It is a mistake, however, for the Allies to make repudiation of the repudiation of these debts the primary condition requisite for allied recognition. Lenin, Trotzky and Co. have been demanding that they be treated as equals, while they have been suppressing liberty in every phase of national life and feeding the largest army in the world, this while America and other countries have been feeding as many of Russia's starving people as it has been possible to reach by the broken-down system of transportation. The very equality that the Bolshevists want should be the first basis of the allied and American demand—not equality based on murder and military dictatorship, but the equality of freedom of speech, freedom of the press, freedom of suffrage—in one word, liberty.

At this world economic conference the agenda to be considered should cover the following subjects:

1. National Trade and Industry.—Basic business conditions, problems of manufacture and agriculture, problems of labor, production and consumption, reconstruction, development of natural resources.

The many questions connected with national trade and industry need to be viewed through the eyes of the consumer and worker as well as from the point of view of the manufacturer and banker. Every country needs greater cooperation between the worker and his employer for the sake of general prosperity and internal security. In regard to this matter the International Financial Conference at Brussels took the following view: "Industry must be so organized as to encourage the maximum production on the part of capital and labor, as by such production alone will labor be able to obtain those improved conditions of life which it is the aim of every country to secure for its people. All classes of the population, and particularly the wealthy, must be prepared willingly to accept the changes necessary to remedy the present situation." Despite what has been written on the wall in blood by this war the capitalist class, from the little shopkeeper to the great industrialist, fails to recognize the inevitable trend of human progress in the readjustment of class relations.

The question of food supplies is a highly important matter for Europe, since the majority of her people depend on the interchange of manufactured goods for food and raw materials, an interchange which is possible only through the complex organization of international finance and trade, of fixed and circulating capital. The development of natural resources constitutes a legitimate question for the world economic conference—conditions are sufficiently abnormal without making them more so by discussion of Italy's argument that no country possessing rich deposits of natural products required by the industries of the world should be allowed to control them.

2. International Trade. — Tariff changes, transportation, immigration, protection of industrial, literary and artistic properties, status of individuals and corporations engaging in business in foreign countries, and communications, with

reference to cable, wireless and postal guarantees, and passport reforms.

The world to-day is suffering from too many trade restrictions, not only in European countries but also in the United States, though to a less extent from our tariff barriers. American tariff schedules must be delicately adjusted to meet our peculiar needs for protection and the partial payment of European debts by importation. World-wide regulation of immigration is necessary in the face of threatening conflicts as a result of overpopulation and differences as to racial superiority. The United States will be flooded with undesirable aliens if the three per cent barrier is let down, while other countries needing immigrants will continue to be ignored. The problems of international transportation and communication also demand careful and immediate consideration.

3. National Finance.—Public finance, with special reference to armament expenditures; reconstruction of national currencies on a gold basis; central banks and banks of issue.

"Every government should, as the first social and financial reform, on which all others depend, restrict its ordinary recurrent expenditure, including the service of the debt to such an amount as can be covered by its ordinary revenue, rigidly reduce all expenditures on armaments in so far as such reduction is compatible with the preservation of national security, abandon all unproductive extraordinary expenditure and restrict even productive extraordinary expenditure to the lowest amount possible." This resolution was approved by the International Financial Conference at Brussels in 1920, and still holds good as a basis of action for most of the countries of Europe. The insolvent countries must settle their basic financial problems by the balancing of budgets and the elimination of inflation before gold can be restored as the standard. Not only must gold be reinstated for the sake of internal stability but as a fundamental basis for international financial and commercial relations. The Federal Reserve Board holds the opinion that "a simple ultimatum to insolvent nations, to the effect that obligations must be met and budgets must be balanced, will not bring about a solution of international difficulties. The capacity of the several nations to defray recurrent expenditures out of regular sources of income must be carefully appraised, and expenditures in excess of ability to pay must be eliminated before budgets can be balanced and inflation consequently stopped. Until some sort of international agreement based upon recognition of this patent fact has made possible the cessation of deficit financiering, no program of currency reform involving a return to the gold standard has any chance of success."

Despite the Conference for the Limitation of Armament and the Genoa program, disarmament will long continue a matter for international consideration. The cause or causes of war have always been found in personal ambition, class greed, overpopulation and trade rivalries. The last war has demonstrated how well peace pays for the masses, but the profiteer class doesn't object so much to war as to post-war. Two of the underlying factors of war can be removed by economic conferences through the international adjustment of trade between nations and the control of the capitalistic elements that profit by war, the chief controlling measure to be an international agreement for the conscription, in case of war, of all the factors of a nation's production.

4. International Finance.—Foreign exchange, gold redistribution, credits, debts.

To stabilize exchange the essential though difficult reestablishment of a free movement of goods and services between individuals and nations must be brought about. For stabilization artificial measures have proved useless. In the efforts to hasten the return to normal trade and exchange, it is unlikely that the ter Meulen Plan will ever be tried out on an extensive scale. By the time conditions are sufficiently stable for its successful operation, there will probably be no need for the issue of bonds such as the plan calls for. It is also doubtful if an international bank based on any of the American plans to help solve the world's troubles will ever be established. International currency, if issued by such a bank, would not have enough realized value behind it to prevent its adding to the world's burden of depreciated paper. In fact, an international currency is not necessary so long as the American dollar has its 100 cents of gold backing. As ex-Secretary of the Treasury Shaw has pointed out, the sums of dollars that would be required for actual shipment from country to country in the use of our dollar as international currency would be small in proportion to the volume of business done. The great evils of the present foreign exchange system—speculation, huge profits and manipulation of enormous sums by foreign exchange bankers—call for the establishment by the leading governments of an international bank of exchange controlled by the governments and cooperating with banking institutions in all countries.

The United States will have to consider redistribution of the world's gold supply in accordance with plans carefully worked out with creditor and debtor nations, belligerents and neutrals alike. "If we do not do this in time," said D. R. Crissinger, Comptroller of the Currency, "the inevitable operation of economic law will sooner or later begin to do it for us, and perhaps in circumstances and by methods that will result in unfortunate consequences." But until the insolvent countries institute effective fiscal reforms they will receive no American gold.

It is to the interest of our manufacturers, farmers and workers, in fact, of the entire country, that Europe's buying power be built up, but, as has been shown, American dollars alone cannot accomplish the feat. Europe expects enormous additional credits from us, but the pouring of further huge sums into Europe is neither desirable nor possible. "It is an anomaly for a nation such as the United States to be in the position of creditor to the rest of the world," says Professor H. G. Moulton, of the University of Chicago. "No nation ever before became a great creditor when its own industrial resources were so partly developed as is the case with the United States." We must figure out the minimum sum necessary to help a self-helping Europe with her rehabilitation. Even that sum will not be provided by the American people in their present state of mind unless Europe frankly acknowledges her debts to us and initiates an effective program for their payment. To counterbalance this payment American investors must undertake the investment abroad of at least corresponding amounts of capital and so eliminate the adverse effects that would accompany Europe's attempts to pay these debts without unbalanced payment—effects worse than any we have yet experienced. Since our investing public knows little of the foreign investment market, which holds even more pitfalls than our own, education on the subject and government cooperation are necessary.

Already we have $11,000,000,000 plus $5,000,000,000 in Europe. We, the people of the United

States, enter any conference with the understanding that we will give assistance in all legitimate ways, but that cancellation, except in so far as we see fit, is not one of them. At the opening of this world economic conference let our representatives at least announce the cancelling of the \$92,262,550 owed to us by Armenia, Czecho-Slovakia, Esthonia, Finland, Latvia, Lithuania and Poland for food delivered to their peoples in 1919 by the American Relief Administration and of the sum of \$60,340,601 due the United States Grain Corporation from Armenia, Austria, Czecho-Slovakia, Hungary and Poland—cancellation in the cause of a good charity. Contingent upon effective disarmament in Europe might be the cancellation of the \$586,400,968 owed us for surplus war materials. Any further cancellation can be Europe's own in connection with her internal war debts. Germany, for example, has \$80,000,000,000 of war bonds, whose cancellation would facilitate the payment of reparations—certainly, as long as these bonds stand and reparations are evaded the Germans need expect no large loan from this country, a loan which would serve them to exploit Russia and her people. Worthy also of consideration is the suggestion that in the general readjustment of inter-governmental debts America should take over China's indebtedness of more than a billion dollars to the allied nations and credit the debtor European nations by the amount of their claims on China.

In case the countries of Europe fail to take definite and effective action to secure their own political and economic stability, the United States will soon be in pressing need of an American conference to work out a helpful plan for the reorganization of American business and commerce. No matter what the composition and scope of the next economic conference the readjustments necessary will require prolonged negotiations.

No single conference will settle for once and all how the world may pay for the war and repair the machinery of trade and industry, but world rehabilitation will come, must come, through exhaustive and fearless discussion leading to effective action. From this world conference and its consideration of the problems presented in the agenda above, no immediate solution of the world's difficulties can be expected, but the conference can initiate the program of economic reorganization that will ultimately win this post-war by providing a hopeful basis for immediate action and the adjustment of more equitable relations between consumer and producer, labor and capital, and among nations, large and small, old and new —not so much because of the $11,000,000,000 and more, as for the sake of the many millions of people who are in misery throughout the world on account of the lack of work and the means of a decent livelihood.